Answers CORP
Form 10-Q
August 04, 2008
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UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2008

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-32255

ANSWERS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**98-0202855**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
237 West 35th Street, Suite 1101, New York, New York	**10001**
(Address of principal executive offices)	(Zip Code)

(646) 502-4777

(Registrant s telephone number)

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated Filer o Accelerated filer x Non-accelerated filer o

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of the registrant s shares of common stock outstanding was 7,859,890 as of July 30, 2008.

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ANSWERS CORPORATION

FORM 10-Q

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INTRODUCTORY NOTE

This Report on Form 10-Q for Answers Corporation (Answers or the Company) may contain forward-looking statements. You can identify these statements by forward-looking words such as may, will, expect, intend, anticipate, believe, estimate and continue similar words. Forward-looking statements include information concerning possible or assumed future business success or financial results. You should read statements that contain these words carefully because they discuss future expectations and plans, which contain projections of future results of operations or financial condition or state other forward-looking information. We believe that it is important to communicate future expectations to investors. The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties, which are discussed in Item 1A, Risk Factors and in other sections of this Form 10-Q and in our other filings with the Securities and Exchange Commission. These risks and uncertainties could cause actual results or events to differ materially from the forward-looking statements that we make.

Although, there may be events in the future that we are not able to accurately predict or control, we do not undertake any obligation to update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future. Accordingly, to the extent that this Form 10-Q contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that Answers actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements.

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PART I - FINANCIAL INFORMATION

Answers Corporation and Subsidiary

Consolidated Balance Sheets (unaudited, in thousands except share and per share data)

	June 30 2008 $	December 31 2007 $
Assets		
Current assets:		
Cash and cash equivalents	**10,187**	6,778
Investment securities		700
Accounts receivable	**1,199**	1,448
Prepaid expenses and other current assets	**946**	487
Total current assets	**12,332**	9,413
Long-term deposits (restricted)	**285**	196
Deposits in respect of employee severance obligations	**1,524**	1,232
Property and equipment, net of $1,748 and $1,615 accumulated depreciation as of June 30, 2008 and December 31, 2007, respectively	**1,224**	1,012
Other assets:		
Intangible assets, net of $639 and $2,352 accumulated amortization as of June 30, 2008 and December 31, 2007, respectively	**1,124**	4,766
Goodwill	**437**	437
Prepaid expenses, long-term, and other assets	**189**	275
Deferred charges (Lexico acquisition and public offering)		1,267
Total other assets	**1,750**	6,745
Total assets	**17,115**	18,598
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	**461**	968
Accrued expenses	**795**	1,045
Accrued compensation	**812**	551
Warrant to purchase units of Series B preferred stock and warrants	**3,511**	
Capital lease obligation current portion	**76**	
Deferred revenues	**4**	16
Total current liabilities	**5,659**	2,580
Long-term liabilities:		
Liability in respect of employee severance obligations	**1,647**	1,233

Capital lease obligation, net of current portion	**152**	
Deferred tax liability	**20**	14
Total long-term liabilities	**1,819**	1,247
Commitments and contingencies		
Series A convertible preferred stock: $0.01 par value; stated value and liquidation preference of $100 per share; 6% cumulative annual dividend; 60,000 shares authorized, 60,000 and 0 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	**55**	
Stockholders equity:		
Preferred stock: $0.01 par value; 940,000 shares authorized, none issued		
Common stock; $0.001 par value; 30,000,000 shares authorized; 7,859,890 shares issued and outstanding as of June 30, 2008 and December 31, 2007	**8**	8
Additional paid-in capital	**76,989**	73,893
Accumulated other comprehensive loss	**(27)**	(28)
Accumulated deficit	**(67,388)**	(59,102)
Total stockholders equity	**9,582**	14,771
Total liabilities and stockholders equity	**17,115**	18,598

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Operations (unaudited, in thousands except share and per share data)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
	$	$	$	$
Revenues:				
Advertising revenue	**2,985**	2,728	**5,998**	5,612
Answers service licensing	**18**	82	**36**	159
Subscriptions				425
	3,003	2,810	**6,034**	6,196
Costs and expenses:				
Cost of revenue	**1,416**	1,320	**2,809**	2,464
Research and development	**929**	748	**1,804**	1,469
Sales and marketing	**933**	1,072	**1,695**	2,054
General and administrative	**1,198**	1,019	**2,329**	1,945
Write-off of the Brainboost Answer Engine	**3,138**		**3,138**	
Termination fees and write-off of costs relating to the terminated Lexico acquisition and abandoned follow-on offering			**2,543**	
Total operating expenses	**7,614**	4,159	**14,318**	7,932
Operating loss	**(4,611)**	(1,349)	**(8,284)**	(1,736)
Interest income, net	**18**	112	**73**	212
Other income (expense), net	**(11)**	4	**(49)**	(12)
Loss before income taxes	**(4,604)**	(1,233)	**(8,260)**	(1,536)
Income tax expense	**(15)**	(14)	**(26)**	(14)
Net loss	**(4,619)**	(1,247)	**(8,286)**	(1,550)
Basic and diluted net loss per common share	**(0.59)**	(0.16)	**(1.06)**	(0.20)
Weighted average shares used in computing basic and diluted net loss per common share	**7,859,890**	7,853,818	**7,859,890**	7,840,140

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Cash Flows (unaudited, in thousands)

	Six months ended June 30 2008 $	2007 $
Cash flows from operating activities:		
Net loss	**(8,286)**	(1,550)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**831**	892
Deposits in respect of employee severance obligations	**(292)**	(119)
Increase in liability in respect of employee severance obligations	**402**	214
Stock-based compensation to employees and directors	**921**	1,123
Write-off of the Brainboost Answers Engine	**3,138**	
Write-off of amounts paid in prior periods, relating to the terminated Lexico acquisition and abandoned follow-on offering	**663**	
Loss on disposal of property and equipment	**3**	
Decrease in deferred tax asset	**6**	14
Gains from exchange rates forward contracts, net	**(90)**	
Exchange rate losses	**49**	12
Changes in operating assets and liabilities:		
Decrease in accounts receivable and other current assets	**160**	24
Decrease (increase) in prepaid expenses and other assets	**86**	(92)
Decrease in accounts payable	**(161)**	(49)
Increase (decrease) in accrued expenses and other current liabilities	**247**	(20)
Decrease in deferred revenues	**(12)**	(457)
Net cash used in operating activities	**(2,335)**	(8)
Cash flows from investing activities:		
Capital expenditures	**(303)**	(448)
Increase in long-term deposits	**(89)**	(100)
Deferred charges relating to planned acquisition		(114)
Purchases of investment securities		(3,205)
Proceeds from sales of investment securities	**700**	3,321
Net cash provided by (used in) investing activities	**308**	(546)
Cash flows from financing activities:		
Exercise of common stock options		145
Repayment of capital lease obligation	**(11)**	
Redpoint financing, net of $620 thousand issuance costs	**5,380**	
Net cash provided by financing activities	**5,369**	145
Effect of exchange rate changes on cash and cash equivalents	**67**	(27)
Net increase (decrease) in cash and cash equivalents	**3,409**	(436)
Cash and cash equivalents at beginning of period	**6,778**	4,976
Cash and cash equivalents at end of period	**10,187**	4,540
Supplemental disclosures of cash flow information:		
Income taxes paid	**4**	5
Non-cash investing activities:		
Acquisition of assets through capital lease obligation	**239**	

Deferred charges relating to planned acquisition		190
Unrealized net loss from securities		1
Non-cash financing activities:		
Increase in accrued dividends	**15**	

The accompanying notes are an integral part of these consolidated financial statements.

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 - Business

Answers Corporation (the Parent) was founded as a Texas corporation on December 22, 1998, and reorganized as a Delaware corporation in April 1999. On December 27, 1998, the Parent formed a subsidiary based in Israel (the Subsidiary), primarily for the purpose of providing research and development services to the Parent. The Parent and its wholly owned Subsidiary are collectively referred to as the Company. The Parent is a public company and trades on the Nasdaq Global Market under the symbol ANSW .

As of June 30, 2008, approximately $256 thousand of the Company s net assets were located outside of the United States.

The Company provides answer-based search services to users primarily through its websites, Answers.com and WikiAnswers.com.

On June 16, 2008, the Company raised $6,000,000, before related fees and costs, in a private placement offering. See Note 5 for further details.

In an effort to improve monetization, in the fourth quarter of 2006, the Company began marketing directly to advertisers and generating additional advertising revenue. However, at the end of the second quarter of 2008, the Company decided to abandon that effort, and by the end of the third quarter of 2008, the direct sales staff will be leaving the Company. In connection with the winding down of this effort, the Company recorded a charge of $90,000, in the second quarter of 2008, to account for the estimated cost of terminating certain related service contracts and employment agreements.

In the second quarter of 2008, the Company abandoned its use of the Brainboost Answer Engine (see Note 4).

In the first quarter of 2008, the Company s planned acquisition of Lexico Publishing Group LLC and the related planned offering of securities were terminated due to unfavorable market conditions. As a result, the Company recorded a charge to its statement of operations, amounting to approximately $2.54 million. See Note 8 (g) for further details.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Answers Corporation and its Subsidiary and are presented in accordance with accounting principles generally accepted in the United States. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. All adjustments, which are, in the opinion of management, of a normal recurring nature and are necessary for a fair presentation of the interim financial statements, have been included. Nevertheless, these financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported results of operations during the reporting periods. Actual results could differ from those estimates.

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 2 - Summary of Significant Accounting Policies (cont d)

Revenue Recognition

The Company, through its websites Answers.com and WikiAnswers.com, generates revenues via advertising in the form of sponsored links and image ads. This includes both pay-per-performance ads and paid-for-impression advertising. In the pay-per-performance model, the Company earns revenue based on the number of clicks associated with such ads. In the paid-for-impression model, the Company s revenue is derived from the display of ads.

The majority of the Company s advertising revenue has been obtained through the efforts of third parties and has not been the result of direct contracts with advertisers. The third party is obligated to pay the Company a portion of the revenue it receives from advertisers, as compensation for the Company s sale of promotional space on its Internet properties. Amounts received from such third parties are reflected as revenue in the period in which such advertising services are provided.

The Company also earns revenues from partners that pay the Company for providing them with answer-based services that they then use in their own products, via co-branded web pages.

In 2003, the Company sold lifetime subscriptions to its GuruNet product, which had no defined termination date. Cash received from such lifetime subscriptions was recorded as deferred revenues and amounted to $425,000. In February 2007, in accordance with the Company s rights under the agreements it previously entered into with such lifetime subscribers, the Company terminated its GuruNet service and thereby extinguished its service obligation to such subscribers. Thus, the Company recognized the $425,000 previously deferred, as revenue in the first quarter of 2007.

The Company earned advertising revenue from its two web properties, as follows:

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
	$ (in thousands)			
Advertising revenue				

Answers.com	1,485	2,551	3,313	5,319
WikiAnswers	1,500	177	2,685	293
	2,985	**2,728**	**5,998**	**5,612**

Accounting for Stock-Based Compensation

The fair value of stock options granted to employees and directors, is estimated at the date of grant using the Black-Scholes option-pricing model, which takes into consideration the share price at the date of grant, the exercise price of the option, the expected life of the option, expected interest rates and the expected volatility.

Through December 31, 2006, due to the lack of adequate history of its own stock volatility, the Company estimated its own expected stock volatility based on the historical stock volatility of three other comparable publicly held companies. During 2007, as the Company accumulated its own volatility history over longer periods of time, the Company s assumptions about its stock price volatility were based on a rate that has been derived by taking into consideration the volatility rates of the aforesaid comparable publicly held companies as well as its own historical volatility rates. Beginning in 2008, the Company estimates its expected stock volatility based on its own historical stock volatility rates only.

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 2 - Summary of Significant Accounting Policies (cont d)

Net Loss per Common Share

Basic and diluted net loss per common share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share is the same as basic net loss per share as the inclusion of the Company s outstanding common stock equivalents would be anti-dilutive.

The table below presents the computation of basic and diluted net loss per common share:

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
	$ (in thousands, except share and per share data)			
Net loss	**(4,619)**	(1,247)	**(8,286)**	(1,550)
Series A Convertible Preferred Stock dividends	(15)		(15)	
Amortization of Series A Convertible Preferred Stock discounts	(40)		(40)	
Net loss attributable to common shares	**(4,674)**	(1,247)	**(8,341)**	(1,550)
Weighted average shares used in computing basic and diluted net loss per common share	**7,859,890**	7,853,818	**7,859,890**	7,840,140
Basic and diluted net loss per common share	**(0.59)**	(0.16)	**(1.06)**	(0.20)

Derivatives and hedging

The Company accounts for derivatives and hedging based on Statement of Financial Accounting Standards 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. If the derivatives meet the definition of a hedge and are so designated, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value is recognized in earnings.

During the first half of 2008, the Subsidiary entered into option contracts to hedge certain foreign currency denominated expenses. These derivatives were not designated as hedging instruments under the rules of SFAS 133 and, therefore, the net gains (losses) are recognized in earnings as they occur. Such gains amounted to $90 thousand, and are included in operating expenses as follows:

	$ (in thousands)
Cost of revenue	12
Research and development	48
Sales and marketing	4
General and administrative	26
	90

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 2 - Summary of Significant Accounting Policies (cont d)

Recently Issued Accounting Standards

In March 2008, the FASB issued Statement of Financial Accounting Standards 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 gives financial statement users better information about the reporting entity s hedges by providing for qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those years. The Company is currently evaluating the potential impact of the adoption of SFAS 161 on its consolidated financial position, results of operations or cash flows.

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1(FSP APB 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* . FSP APB 14-1 requires issuers of convertible debt that may be settled wholly or partly in cash when converted to account for the debt and equity components separately. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 and must be applied retrospectively to all periods presented. The Company is currently evaluating the potential impact of the adoption of FSP APB 14-1 on its consolidated financial statements.

Note 3 Capital Leases

In April 2008, the Company entered into several capital lease agreements to purchase equipment for its new co-location server facility (see note 8 (b)). The capitalized leases are included in property and equipment as follows:

	As of June 30	
	2008	**2007**
	$ (in thousands)	
Computer equipment	**239**	
Less: accumulated depreciation	**(18)**	
	221	

Note 4 Brainboost Answer Engine

In December 2005, the Company acquired Brainboost Technology, LLC, developer of the Brainboost Answer Engine (BAE), an artificial intelligence technology enabling natural language question-and-answer search on the Web. As consideration for the acquisition, the Company paid $4.0 million in cash and 439,000 shares of its restricted stock, valued at approximately $5.6 million at the time of the acquisition. In connection with the initial allocation of the purchase price, the Company recorded an intangible asset, with an estimated useful life of six years, of approximately $5.4 million.

In the second quarter of 2008, the Company decided to focus its efforts, in the realm of questions-and-answers, solely on user-generated, questions-and-answers, and effectively abandoned its use of the BAE. This decision was implemented on May 25, 2008, when changes were made to Answers.com, virtually eliminating the use of the BAE. Additionally, the Company no longer has any staff assigned to this project, has no plans to reinstate the use of the BAE and considers it to have no further service potential.

As a result of the Company s decision to effectively abandon its use of the BAE, the net book value of the BAE as of May 25, 2008, in the amount of $3,138,000, was written off, and the resulting charge is included in the Company s operating expenses for the three and six months ended June 30, 2008.

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 5 Redpoint Financing

On June 16, 2008, pursuant to a private placement of the Company s securities, Redpoint Omega, L.P. and Redpoint Omega Associates, LLC (collectively, Redpoint) purchased $6,000,000 of the Company s Series A Convertible Preferred Stock, initially convertible into 1,333,333 shares of common stock at a conversion price of $4.50 per share, and Common Stock Purchase Warrants exercisable for 666,667 shares of common stock at an exercise price of $4.95 per share (Series A Warrants). Redpoint also received a warrant, exercisable until June 16, 2009, to purchase units of up to $7 million of Series B Convertible Preferred Stock and Common Stock Purchase Warrants exercisable for 636,364 shares of common stock (Series B Warrants). The Series B Convertible Preferred Stock is initially convertible into 1,272,727 shares of common stock at a conversion price of $5.50 per share. The Series B Warrants have an exercise price of $6.05 per share. After deducting placement agent fees and legal expenses, the Company s net proceeds from the private placement were approximately $5,380,000. The Series A Convertible Preferred Stock, the Series B Convertible Preferred Stock, the Series A Warrants and the Series B Warrants are collectively referred to as the Redpoint Securities . The warrant to purchase units of Series B Convertible Preferred Stock and Series B Warrants is referred to as the Unit Warrant .

The Series A Convertible Preferred Stock has the rights and preferences set forth in the Company s Certificate of Designations, which amended the Company s Amended and Restated Certificate of Incorporation as of its date of filing on June 16, 2008 (see Note 6). The Series B Convertible Preferred Stock, if purchased by Redpoint pursuant to its Unit Warrant, will have similar rights and preferences as the Series A Convertible Preferred Stock.

In connection with the private placement the Company entered into a registration rights agreement with Redpoint, pursuant to which the Company agreed to register with the SEC for resale the common stock underlying the Redpoint Securities. In connection with the registration rights agreement, the Company agreed to pay a penalty of 1.0% per month, on a daily pro rata basis, up to a maximum of 8.0%, of the aggregate purchase price, as partial liquidated damages, for certain default events and subject to certain circumstances. The partial liquidated damages will trigger if the registration statement is not filed by August 15, 2008, or if the Company fails to file a request for acceleration of effectiveness, or if the registration statement is not declared effective by November 13, 2008, or ceases to remain continuously effective. The Company also agreed to use its reasonable best efforts to obtain all required stockholder approval for the authorization and issuance of the common stock underlying the Redpoint Securities by September 15, 2008.

In connection with the private placement, Redpoint received the right to appoint an individual to serve as a voting member of the Company s board of directors. If Redpoint exercises the Unit Warrant and meets certain ownership requirements, it will be entitled to appoint a second member to the Company s board of directors.

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ANSWERS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 5 Redpoint Financing (cont d)

Accounting

The $6,000,000 of proceeds from the Redpoint Financing were first allocated to the Unit Warrant, which has been classified as a liability, based on its fair value, and the residual amount was allocated among the Series A Convertible Preferred Stock and the Series A Warrants based on their relative fair values, all in accordance with the guidance in SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* , and EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock* . The Series A Convertible Preferred Stock has been classified as temporary equity, in accordance with the guidance in EITF D-98, *Classification and Measurement of Redeemable Securities* , and the Series A Warrants have been classified in permanent equity.

In recording the effects of the transaction, the Company allocated the consideration from the purchase of the Redpoint Securities as follows:

	Series A Convertible Preferred Stock	Series A Warrants	Unit Warrant	Total
		$ (in thousands)		
Allocated amount	1,972	517	3,511	6,000
Less: Transaction costs	(204)	(53)	(363)	(620)
	1,768	464	3,148	5,380

Transaction costs were allocated on a pro rated basis, based on the amounts allocated to each of the components of the transaction. Transaction costs relating to the Series A Convertible Preferred Stock and Series A Warrants have been reflected as a reduction to the proceeds from the issuance of such instruments. Transaction costs relating to the Unit Warrant have been deferred and are being amortized to interest expense over one year, which is the life of the warrant.

Series A Convertible Preferred Stock

In accordance with guidance in EITF D-98, *Classification and Measurement of Redeemable Securities* and other accounting literature, the Series A Convertible Preferred Stock has been recorded at its initial relative fair value and classified in temporary equity. Subsequent changes to its fair value will not be recognized as long as the stock continues to be classified as temporary equity and not as a liability.

Series A Warrants

The relative fair value of the Series A Warrants, as explained above, has been recorded and classified as additional paid in capital in permanent equity, as described above, with a corresponding discount to the Series A Convertible Preferred Stock. Such discount is amortized to paid-in capital through the earliest redemption date of the stock, which is six years after the date of issuance. As of June 30, 2008, approximately $3,000 of such discount has been amortized.

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ANSWERS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 5 Redpoint Financing (cont d)

Unit Warrant

The Unit Warrant has been recorded as a liability, with a corresponding discount to the Series A Convertible Preferred Stock. Such discount is amortized against paid-in capital through the earliest redemption date of the stock, which is six years after the date of issuance. As of June 30, 2008, approximately $25,000 of such discount has been amortized.

The Unit Warrant will be revalued each reporting date. Any changes to its fair value will be recorded in the statement of operations as interest expense. The Company assessed the value of the Unit Warrant as of June 30, 2008, as compared to its value on the date of the Redpoint Financing, June 16, 2008. The change in value was not recorded in the statements of operations for the three and six months ended June 30, 2008, since it was immaterial.

Beneficial Conversion Feature

Resulting from the allocation of the proceeds as described above, and in comparison to the fair market value of the Company s common stock on the date of issuance, the effective conversion rate of the Series A Convertible Preferred Stock, represents an additional beneficial conversion value. Thus, the Company recorded an additional discount to the Series A Convertible Preferred Stock, with a corresponding increase in paid-in capital, of $1,768,000, reducing the Series A Convertible Preferred Stock to zero. In accordance with EITF 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments* , the aforesaid discount is amortized to paid-in capital over six years from the date of issuance, the earliest redemption date of the stock. As of June 30, 2008, approximately $12,000 of such discount has been amortized.

There are additional features of the Series A Convertible Preferred Stock which represent contingent beneficial conversion features, to be reevaluated in the future. In the event that the facts and circumstances indicate that a contingency is removed, at that point the beneficial conversion feature, if any, will be recorded.

Dividends

The Series A Convertible Preferred Stock accrues cumulative dividends at a rate of 6% per annum whether or not dividends have been declared by the Company s Board of Directors and whether or not there are profits, surplus or other funds available for the payment of such dividends. Due to the Company s decision to pay such dividends in the form of shares of common stock, the dividend accrual is reflected as an increase in the stated value of the Series A Convertible Preferred Stock with a corresponding decrease in the additional paid-in capital.

Note 6 - Series A Convertible Preferred Stock

The following table summarizes the changes in the Series A Convertible Preferred Stock resulting from issuance through June 30, 2008:

	$ (in thousands)
Gross proceeds	**6,000**
Issuance costs	(204)
Discount resulting from the issuance of the Series A Warrants	(517)
Discount resulting from the issuance of the Unit Warrant	(3,511)
Discount resulting from the Beneficial Conversion Feature	(1,768)
Amortizations of discounts from closing through June 30, 2008	40
Accrued dividends	15
	55

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 6 - Series A Convertible Preferred Stock (cont d)

As a result of the Redpoint Financing (see note 5), the Company s Amended and Restated Certificate of Incorporation has been amended to provide for the issuance of up to 60,000 shares of Series A Convertible Preferred Stock with a stated value of $100 per share (the Stated Value) pursuant to the Certificate of Designations, Number, Voting Powers, Preferences and Rights of Series A Convertible Preferred Stock filed with the State of Delaware on June 16, 2008 (the Certificate of Designations).

The Certificate of Designations provides for the following rights and preferences:

Dividends

The Series A Convertible Preferred Stock will accrue cumulative dividends at a rate of 6% per annum whether or not dividends have been declared by the Board of Directors and whether or not there are profits, surplus or other funds available for the payment of such dividends. Dividends may be payable in kind at the option of the Company upon satisfaction of certain conditions.

Voting Rights

The Series A Convertible Preferred Stock shall vote on an as converted basis with the Company s common stock. So long as any shares of Series A Convertible Preferred Stock are outstanding, the Company shall not, without the affirmative vote of the holders of a majority of the shares of the Series A Convertible Preferred Stock then outstanding (each holder of Series A Convertible Preferred Stock, a Holder and collectively, the Holders) , (a) alter or change adversely the powers, preferences or rights given to the Series A Convertible Preferred Stock or alter or amend the Certificate of Designations (whether by merger, consolidation or otherwise), (b) authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon a Liquidation senior to or otherwise pari passu with the Series A Convertible Preferred Stock, except for any series of Preferred Stock issued to the Holders, (c) amend its certificate of incorporation or other charter documents (whether by merger, consolidation or otherwise) so as to affect adversely any rights of the Holders, (d) increase or decrease the authorized number of shares of Series A Convertible Preferred Stock, or (e) enter into any agreement with respect to the foregoing.

Liquidation

Upon an event of liquidation, as defined in the Certificate of Designations (a Liquidation), the Holders shall be entitled to receive out of the assets of the Company, whether such assets are capital or surplus, for each share of Series A Convertible Preferred Stock an amount equal to greater of (i) the Stated Value per share plus any accrued and unpaid dividends thereon and any other fees or liquidated damages owing thereon before any distribution or payment shall be made to the holders of any junior securities or (ii) such amount per share as would have been payable had all shares of Series A Convertible Preferred Stock been upon any such Liquidation converted to common stock immediately prior to such Liquidation, in any case, and if the assets of the Company shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the Holders shall be distributed among the Holders ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full.

Conversions at Option of Holder

Each share of Series A Convertible Preferred Stock shall be convertible into that number of shares of common stock (Common Stock) determined by dividing the Stated Value plus any accrued but unpaid dividends thereon (to the extent not already included in the Stated Value) of such share of Series A Convertible Preferred Stock by $4.50 (the Conversion Price), at the option of the Holder, at any time and from time to time.

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 6 - Series A Convertible Preferred Stock (cont d)

Mandatory Conversion

Beginning December 16, 2009, provided certain conditions are satisfied, if the closing price of the Common Stock equals an average of $13.50 (subject to adjustment for stock splits, reclassifications, combinations and similar adjustments) per share for the 45 consecutive trading days immediately prior to the Automatic Conversion Notice Date (as defined below), and average daily volume of the Common Stock on The Nasdaq Global Market averages at least $1,000,000 during such measurement period, unless the Holder is prohibited from converting the Series A Convertible Preferred Stock pursuant to certain limitations set forth in the Certificate of Designations, the Company shall have the right to deliver a notice to the Holder (an Automatic Conversion Notice, and the date such notice is received by the Holder, the Automatic Conversion Notice Date), to convert any portion of the shares of Series A Convertible Preferred Stock then held by the holder into shares of Common Stock at the then-effective Conversion Price.

Redemption

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

Subsequent Equity Sales

If the Company, at any time while Series A Convertible Preferred Stock is outstanding, shall sell or grant any option to purchase or otherwise dispose of or issue any Common Stock or Common Stock equivalents entitling any person to acquire shares of Common Stock, at an effective price per share less than the then effective Conversion Price, then, the Conversion Price shall be adjusted on a broad weighted average basis.

Participation Rights

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

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 7 Stockholders Equity

General

The following table summarizes the changes in the Company s stockholders equity during the six-month period ending June 30, 2008:

	$ (in thousands)
December 31, 2007	**14,771**
Stock-based compensation	921
Discount resulting from the issuance of the Series A Warrants	463
Discount resulting from the Beneficial Conversion Feature	1,768
Amortizations of discounts from closing through June 30, 2008	(40)
Accrued dividends	(15)
Net loss for the period	(8,286)
June 30, 2008	**9,582**

Stock Warrants

As of June 30, 2008, there were 1,824,430 outstanding stock warrants with a weighted average exercise price of $12.09. All warrants are exercisable immediately. No warrants were exercised during the six months ended June 30, 2008.

Stock Options

During the six months ended June 30, 2008, the Company granted a total of 60,500 stock options to its employees and officers at an average exercise price of $4.19 per option. All such options were granted under the Company s 2005 Plan. Additionally, during the same period, 47,829 stock options were forfeited.

As of June 30, 2008, 95,505 and 116,360 options were available for grant under the 2005 Plan and the 2004 Stock Plan, respectively. All Prior Option Plans are closed for future grants.

The total fair value of stock options vested during the first half of 2008, amounted to $921 thousand and was recorded as stock-based compensation expense. No stock options were exercised during the six months ended June 30, 2008.

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 8 - Commitments and Contingencies

(a) Future minimum lease payments under non-cancelable operating leases for office space and cars, as of June 30, 2008, are as follows:

Year ending December 31	$ (in thousands)
2008 (six months ending December 31, 2008)	224
2009	403
2010	241
2011	1
	869

Rental expense for operating leases for the three months ended June 30, 2008 and 2007, was approximately $139,000, and $122,000, respectively. Rental expense for operating leases for the six months ended June 30, 2008 and 2007, was approximately $272,000, and $240,000, respectively.

(b) Future minimum lease payments under non-cancelable capital leases for computer equipment, as of June 30, 2008, are as follows:

Year ending December 31	Principal	Interest
	$ (in thousands)	
2008 (six months ending December 31, 2008)	38	5
2009	78	8
2010	82	3
2011	30	1
	228	17

(c) A bank guarantee given to the Subsidiary s landlord, is secured by a restricted long-term deposit of $163,000 and collateralized by some of the Subsidiary s bank deposits (as of June 30, 2008, such deposits amounted to $557,000).

(d) In the ordinary course of business, the Company enters into various arrangements with vendors and other business partners, principally for content, web-hosting, marketing and various consulting arrangements. As of June 30, 2008, the total future commitments under these arrangements amount to approximately $572,000.

(e) In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of its breach of agreements, services to be provided by it, or from intellectual property infringement claims made by third parties. Additionally, the Company, through its operating agreement, has indemnified its members, officers, employees, and agents serving at the request of the Company to the fullest extent permitted by applicable law. It is not possible to determine the maximum potential amount of liability under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. To date, the Company has not incurred costs as a result of obligations under these agreements and has not accrued any liabilities related to such indemnification obligations in its accompanying financial statements.

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ANSWERS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 8 - Commitments and Contingencies (cont d)

(f) From time to time, the Company receives various legal claims incidental to its normal business activities, such as intellectual property infringement claims and claims of defamation and invasion of privacy. Although the results of claims cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on its financial position, results of operations, or cash flows.

(g) On July 13, 2007, the Company 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. Consummation of the acquisition of Lexico was subject to the Company s ability to secure financing for the acquisition.

On July 17, 2007, the Company filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission which was declared effective on August 6, 2007. The registration statement covers up to an aggregate of $140,000,000 of common stock, preferred stock, warrants, debt securities, units or any combination thereof. The Company filed various prospectus supplements for a proposed public offering, the latest of which was filed on February 8, 2008. On February 13, 2008 the Company canceled its proposed public offering due to unfavorable market conditions.

On March 1, 2008, the members of Lexico terminated the purchase agreement, due to the Company s inability to finance the acquisition. As a result of the termination of the purchase agreement, the Company reimbursed $500,000 of the sellers transaction-related legal and accounting expenses, as provided for in the Purchase Agreement.

Additionally, in connection with the Lexico transaction, on January 15, 2008, the Company entered into a Securities Purchase Agreement with an institutional investor, or the senior notes investor, for the optional purchase and sale of $8.5 million aggregate principal amount of its senior secured convertible notes due 2010, or the senior secured convertible notes. The Company s intent was to close the senior secured convertible notes financing in conjunction with its follow-on offering, if it needed such funds to close the Lexico acquisition. Since the Company s purchase agreement with Lexico was terminated, the Securities Purchase Agreement was also terminated and the Company paid the senior secured convertible notes investor a termination fee of $425 thousand, as provided for in the Securities Purchase Agreement.

In addition to the payments to Lexico and the senior notes investor, aggregating $925,000, the Company incurred approximately $1,270,000 and $348,000 of costs, including legal, accounting, banking, consulting and travel costs, in 2007 and in the first quarter of 2008, respectively, in connection with the proposed acquisition of Lexico and follow-on offering. The payments to Lexico, to the senior notes investor, and the additional costs, collectively $2,543,000, are included in the operating expenses on the Company s statement of operations for the six months ended June 30, 2008.

Note 9 Major Customer

During the first half of 2008, the majority of the Company s advertising revenue was generated through the efforts of third party suppliers (the Monetization Partners). During the three months ending June 30, 2008, the Company earned approximately 78% of its advertising revenue through one of its Monetization Partners, compared to 73% of advertising revenue from that Monetization Partner during the second quarter of 2007. Additionally, during the six months ending June 30, 2008, the Company earned approximately 77% of its advertising revenue through one of its Monetization Partners, compared to 71% of advertising revenue from that Monetization Partner during the same period in 2007.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by, our financial statements (and notes related thereto) and other more detailed financial information appearing elsewhere in this report. Consequently, you should read the following discussion and analysis of our financial condition and results of operations together with such financial statements and other financial data included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the Risk Factors section of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. See also Risk Factors in Part II, Item 1A, of this report.

Overview

We are a leading online answer engine. Our Web properties consist of Answers.com and WikiAnswers.com. We offer information related to over 5 million topics based on content from brand-name publishers, and our WikiAnswers community. 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 15.8 million unique visitors in June 2008, which ranks Answers Corporation number 55 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.

Recent Events

Redpoint Financing

On June 16, 2008, pursuant to a private placement of our securities, Redpoint Omega, L.P. and Redpoint Omega Associates, LLC (collectively, Redpoint) purchased $6,000,000 of our Series A Convertible Preferred Stock, initially convertible into 1,333,333 shares of common stock at a conversion price of $4.50 per share, along with Common Stock Purchase Warrants exercisable for 666,667 shares of common stock at an exercise price of $4.95 per share (Series A Purchase Warrants). In conjunction therewith, Redpoint also received a warrant, exercisable until June 16, 2009, to purchase units of up to $7 million of Series B Convertible Preferred Stock and Common Stock Purchase Warrants exercisable for 636,364 shares of common stock (Series B Purchase Warrants). The Series B Convertible Preferred Stock is initially convertible into 1,272,727 shares of common stock at a conversion price of $5.50 per share. The Series B Purchase Warrants have an exercise price of $6.05 per share. After deducting placement agent fees and legal expenses, our net proceeds from the private placement were $5,380 thousand. The aforesaid transaction is collectively referred to as the Redpoint Financing . The Series A Convertible Preferred Stock, the Series B Convertible Preferred Stock, the Series A Warrants and the Series B Warrants are collectively referred to as the Redpoint Securities .

The Series A Convertible Preferred Stock has the rights and preferences set forth in our Certificate of Designations, Number, Voting Powers, Preferences and Rights of Series A Convertible Preferred Stock, which amended our Amended and Restated Certificate of Incorporation as of its date of filing on June 16, 2008. The Series B Convertible Preferred Stock, if purchased by Redpoint pursuant to its unit warrant, will have similar rights and preferences as the Series A Convertible Preferred Stock. For a detailed description of the rights and preferences of the Series A Convertible Preferred Stock, we refer you to note 6 to the financial statements included in this quarterly report.

In connection with the private placement, we entered into a registration rights agreement with Redpoint, pursuant to which we agreed to register with the SEC for resale the common stock underlying the Redpoint Securities. In connection with the registration rights agreement, we agreed to pay a penalty of 1.0% per month, on a daily pro rata basis, up to a maximum of 8.0%, of the aggregate purchase price, as partial liquidated damages, for certain default events and subject to certain circumstances. The partial liquidated damages will trigger if the registration statement is not filed by August 15, 2008, or if we fail to file a request for acceleration of effectiveness, or if the registration statement is not declared effective by November 13, 2008, or ceases to remain continuously effective. We also agreed to use our reasonable best efforts to obtain all required stockholder approval for the authorization and issuance of the common stock underlying the Redpoint Securities by September 15, 2008.

In connection with the Redpoint Financing, Redpoint received the right to appoint an individual to serve as a voting member of our board of directors. If Redpoint exercises its unit warrant and meets certain ownership requirements, it will be entitled to appoint a second member to our board.

Write-off of Brainboost Answer Engine

In December 2005, we acquired Brainboost Technology, LLC, developer of the Brainboost Answer Engine, or the BAE, an artificial intelligence technology enabling natural language question-and-answer search on the Web. As consideration for the acquisition, we paid $4.0 million in cash and 439,000 shares of its restricted stock, valued at approximately $5.6 million at the time of the acquisition. In connection with the initial allocation of the purchase price, we recorded an intangible asset, the BAE, with an estimated useful life of six years, of approximately $5.4 million. Since the acquisition, through the first quarter of 2008, we spent time further developing the BAE and integrating it into our Answers.com Web property.

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In November 2006, we acquired a Web property, then known as www.faqfarm.com, and subsequently rebranded as WikiAnswers.com, a dynamic, user-generated, questions and answers website. Although handled in different ways, BAE and WikiAnswers are effectively focused on similar areas, answering complex natural language questions. Since its acquisition, WikiAnswers has grown significantly, each quarter, both in terms of traffic and revenue. Conversely, during that period, Answers.com traffic and revenue has generally declined each quarter. Detailed information regarding these trends is provided in the revenue discussion in this quarterly report. As a result of this continued trend, and the success of user-generated questions and answers as compared to the technology-driven answers presented by the BAE, we made a strategic decision in the second quarter of 2008 to focus our efforts, in the realm of questions-and-answers, on user-generated questions and answers, and effectively abandoned our use of the BAE. This strategic decision is reflected in a change we made to Answers.com on May 25, 2008. Prior to that date, users asking a question on Answers.com caused the site to access the BAE in an attempt to locate an answer on the Web. The BAE results were then presented on the Answers.com result page. Beginning May 25, 2008, users no longer receive BAE-derived result pages, rather they are instead encouraged to post their question to WikiAnswers, and in a less pronounced fashion, offered a link to another page for purposes of accessing BAE should they wish to do so. This user-interface change virtually eliminated the use of the BAE as demonstrated by the elimination of virtually all BAE-derived page views. Additionally, we no longer have any staff assigned to BAE development. We have no plans to reinstate the use of the BAE and consider it to have no further service potential.

As a result of our decision to effectively abandon our use of the BAE, the net book value of the BAE, as of May 25, 2008, in the amount of $3.138 million, was written off during the three months ended June 30, 2008.

Suspension of Direct Ad Sales

In an effort to improve monetization, in the fourth quarter of 2006, we began marketing directly to advertisers and generating additional advertising revenue. However, at the end of the second quarter of 2008 we decided to abandon our direct ad sales efforts, and by the end of the third quarter of 2008, our direct sales staff will be leaving the Company. In connection with the winding down of this effort, we recorded a charge of $90 thousand, in the second quarter of 2008, to account for the estimated cost of terminating certain related service contracts and employment agreements.

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 they deem 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 the second quarter of 2008, according to our internal estimates, this source of traffic represented approximately 73% of our traffic.

- *Direct users:* Users visiting and returning to our home pages, and to a far lesser extent, arriving from Web properties that send us traffic, or via 1-Click Answers and AnswerTips. For the second quarter of 2008, according to our internal estimates, direct users represented approximately 20% of our traffic.

- *Google s definition link:* We have an informal, non-contractual relationship with Google under which Google links certain search results related to definitional queries to Answers.com. For the second quarter of 2008, according to our internal estimates, this source of traffic represented approximately 7% 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 search engine actions, including actions by Google. 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. In response to the Google algorithm adjustment, in August 2007, we reduced our headcount and related compensation costs, reducing our base payroll expenses by approximately 12%.

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.

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Monetization

Advertising Revenue. We earn practically all 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 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.

We gauge the effectiveness of our monetization efforts and trends by measuring our revenue per thousand page views, or RPM. Throughout this quarterly report, we refer to estimates of traffic, or page views. Historically, we tracked the traffic on our Answers.com and WikiAnswers Web properties using two separate systems:

(a) Our Answers.com traffic was measured using our internally developed server-side, log-based system (Internal Data Warehouse). This system was 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 was excluded from the traffic activity measurements.

(b) WikiAnswers traffic was tracked using HBX Analytics, a tag-based web analytics system offered by Omniture, Inc. (formerly offered by WebSideStory). 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.

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. Beginning with this report, all traffic measurements (including measurements previously reported in past filings using our Internal Data Warehouse) for Answers.com will also be presented based on the HBX Analytics data. We estimate that the historical page views for Answers.com pursuant to HBX Analytics data, as set forth in this quarterly report, are approximately 11% lower than the traffic measurements reported in previous filings. Consequently, our Answers.com RPMs, as reported in this quarterly report, are higher than previously reported.

We also use Google, Inc. s Google Analytics measurement services for various internal analyses. Further, our breakdown of our traffic sources, noted above, is based on the Google analytics data. 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.

Two of our third party ad networks, Google and Shopping.com, accounted for approximately 77% and 4%, respectively, of our total revenue in the second quarter of 2008 and approximately 71% and 10%, respectively, of our total revenue in the second quarter of 2007. They accounted for approximately 77% and 5% respectively, of our total revenue in the first six months of 2008 and approximately 65% and 10%, respectively, of our total revenue in the first six months of 2007. In addition to Google and Shopping.com, we utilize the services of other third party ad networks that provide us with ads. Although there are many companies that provide third party ad networks, the loss of Google as a third party ad network could have a material adverse impact on our financial condition, as we may not succeed in receiving terms and ad services as favorable as those provided under our Google Services Agreement (GSA). While the drop in traffic due to the July 2007 Google search engine algorithm adjustment impacted our aggregate advertising revenue, it did not affect our contractual relationship with Google under the GSA, which was last renewed for an additional two years, through January 31, 2010.

Direct Ad Sales. In an effort to improve monetization, in the fourth quarter of 2006, we began marketing directly to advertisers and generating additional advertising revenue through an in-house team of direct ads salespeople. However, at the end of the second quarter of 2008 we decided to suspend this business initiative, and by the end of the third quarter of 2008 we will no longer employ a sales staff. We initially saw promise in this area, with the belief that our Web properties would see RPM increases as a result of direct ad sales. In the fourth quarter of 2007, the sales force generated $575 thousand of direct ad revenue. However, direct ad revenue in 2008 was disappointing, with Q1 at $231 thousand and Q2 at $200 thousand. We now believe that the horizontal, educational, reference nature of www.answers.com makes direct ads less compelling for this Web property. While we view WikiAnswers as having the potential to successfully implement a direct ad sales strategy, we have decided not to take that route and to instead focus on selling ads through advertising networks, primarily Google AdSense. This decision will allow us to focus on our core competency growing the WikiAnswers community, growing traffic to our Web properties and monetizing via Google and other ad networks. In connection with the winding down of our direct ad sales efforts, we recorded a charge of $90 thousand in the second quarter of 2008, to account for the estimated cost of terminating certain related service contracts and employment agreements.

Licensing Revenue. We also earn a very minor portion of our revenues from partners that pay us for providing them with our answer-based services that they then use in their own products, via co-branded Web pages. Revenue from these arrangements are based on various formulas, including fees based on the number of user queries and fixed periodic fees.

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Costs and Expenses

Cost of Revenue

Cost of revenue consists of fees to third party providers of content, Web search service fees, ad serving fees, amortization of the cost of acquired software used in our products, data center costs including depreciation of information technology assets, contractual revenue sharing fees to various Web property operators for visitors directed to our Web properties, or traffic acquisition costs, as well as the compensation, travel and overhead costs relating to personnel who are responsible for content editing and integration, production operations and customer support. As a result of our migration to a co-location facility for hosting our Web properties from managed hosting, a process we expect to conclude in 2008, we expect our unit production operations costs to decline. Further, as revenues increase, we expect our cost of revenue as a percentage of revenue to decrease, since many of its components, such as content licensing, are not directly tied to revenue.

Research and Development Expenses

Research and development expenses consist of compensation, travel and overhead costs of personnel conducting research and development of our products and services, and consulting costs. Our research and development team works primarily on projects to improve and enhance user interface, product functionality, monetization, disambiguation, scalability and performance. We generally expect that our research and development expenses will decline as a percentage of revenue as we grow our revenue.

Sales and Marketing Expenses

Sales and marketing expenses consist of compensation, travel and overhead costs of personnel in-charge of sales and marketing, WikiAnswers community management, and product management, public relations, marketing and market information services, and advertising and promotional costs. We generally expect that our sales and marketing expenses will decline as a percentage of revenue as we grow our revenue.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation, travel and overhead costs for financial, legal and administrative personnel, insurance fees, professional services, including investor relations, legal, accounting and other consulting fees, amortization of domain names, and other general corporate expenses. Overhead costs consist primarily of rent, telecommunications, utilities and depreciation expenses. We generally expect that our general and administrative expenses will decline as a percentage of revenue as we grow our revenue.

Write-off of the Brainboost Answer Engine

As a result of our decision to effectively abandon our use of the BAE, the net book value of the BAE was written off and the resulting charge of $3,138 thousand is included in our statement of operations for the three and six months ended June 30, 2008.

Termination fees and write-off of cost relating to the terminated Lexico acquisition and abandoned follow-on offering

In the first quarter of 2008, we recorded a charge of $2,543 thousand consisting of $1,618 thousand of accounting, legal, banking, consulting and travel costs we incurred in 2007 and in the first quarter of 2008, in connection with the abandoned acquisition of Lexico and follow-on offering of securities, and $925 thousand relating to termination fees we paid as a result of the termination of the acquisition and follow-on offering. A summary of the events that led to the termination of the acquisition and follow-on offering follows:

On July 13, 2007, we entered into a Purchase Agreement that we subsequently amended on July 31, 2007 and November 12, 2007, and on January 15, 2008 we entered into an Amended and Restated Purchase Agreement, which we subsequently amended on February 8, 2008, 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. Consummation of the acquisition of Lexico was subject to our ability to secure financing for the acquisition.

On July 17, 2007, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission which was declared effective on August 6, 2007. The registration statement covers up to an aggregate of $140 million of common stock, preferred stock, warrants, debt securities, units or any combination thereof. On January 16, 2008, we filed a prospectus supplement for a proposed public offering which we later amended on February 8, 2008. On February 13, 2008 we canceled our proposed public offering due to unfavorable market conditions. On March 1, 2008, the members of Lexico terminated the purchase agreement, due to our inability to finance the acquisition. Additionally, in connection with the Lexico transaction, on January 15, 2008, we entered into a Securities Purchase Agreement with an institutional investor, or the senior notes investor, for the optional purchase and sale of $8.5 million of our senior secured convertible notes. Our intent was to close the senior secured convertible notes financing in conjunction with our follow-on offering, if we needed such funds to close the Lexico acquisition. Since our purchase agreement with Lexico was terminated, the Securities Purchase Agreement also terminated.

Stock-Based Compensation

New employees typically receive stock option awards within three months of their start date. We also grant additional stock option awards to existing employees and directors, usually once a year. We account for stock-based awards under SFAS No. 123 (revised 2004), *Share-Based*

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Payments , or SFAS 123R, which requires measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the service period awards are expected to vest. Costs resulting from stock-based compensation are part of our compensation expense and are included in the operating expense categories in our Statement of Operations.

Impact of Currency Fluctuations

The dollar cost of our operations in Israel is heavily influenced by changes in the value of the dollar in relation to the New Israel shekel (NIS), mostly due to the NIS-based salaries of our Israel-based employees. In the three months ended June 30, 2008, the average value of the dollar declined approximately 16%, as compared to its value during the same period in 2007. In the six months ended June 30, 2008, the average value of the dollar declined approximately 15%, as compared to its value during the same period in 2007. During the three and six months ending June 30, 2008, approximately $1.4 million and $2.7 million of our expenses, respectively, were NIS-based, thus the devaluation noted above, significantly influenced our operating expenses. While hedging activities somewhat reduced the impact of the devaluation of the dollar during those periods, we absorbed most of the devaluation.

Interest Income Net

Interest income, net primarily consists of interest income earned on cash, cash equivalent and an investment security balances.

Other Expenses

Other expenses consist primarily of foreign currency exchange gains and losses.

Income Tax Expense

Our effective tax rate differs from the statutory federal rate due to differences between income and expense recognition prescribed by income tax regulations and Generally Accepted Accounting Principles. We utilize different methods and useful lives for depreciating and amortizing property, equipment and intangible assets and different methods and timing for calculating and recording stock compensation expense and other accruals. Furthermore, permanent differences arise from certain income and expense items recorded for financial reporting purposes but not recognizable for income tax purposes. In addition, our income tax expense has been adjusted for the effect of state and local taxes and foreign income from our wholly owned subsidiary. Our deferred tax assets are primarily offset by a valuation allowance because realization depends on generating future taxable income, which, in our estimation, is not more likely than not to transpire.

Our Israeli subsidiary had income in the three months ended June 30, 2008 and 2007, resulting from the services agreement we entered into with such Israeli subsidiary. Pursuant to this agreement, the Israeli subsidiary charges us for research and development services it provides us, plus a profit margin not more than 12.5%. However, the subsidiary is an approved enterprise under Israeli law, which means that income arising from the subsidiary s approved activities, is subject to zero tax under the alternative benefit path for a period of ten years. Currently, the subsidiary operates under two separate approved enterprise plans, ending December 31, 2009 and December 31, 2014, respectively. In the event of distributions by the subsidiary to the parent, the subsidiary would have to pay a 10% corporate tax on the amount distributed, and the recipient would have to pay a 15% tax to be withheld at source on the amounts of such distribution received. At present, we do not plan on having the subsidiary distribute a dividend to Answers Corporation.

Three Months and Six Months Ended June 30, 2008 and 2007

Revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007 ($ - in thousands)	Change	2008	2007 ($ - in thousands)	Change
Answers.com advertising revenue	1,485	2,551	(1,066)	3,313	5,319	(2,006)
WikiAnswers advertising revenue	1,500	177	1,323	2,685	293	2,392
Answers services licensing revenue	18	82	(64)	36	159	(123)
Subscription revenue					425	(425)
	3,003	2,810	193	6,034	6,196	(162)

Revenue increased $193 thousand, or 7%, to $3,003 thousand for the three months ended June 30, 2008 from $2,810 thousand for the three months ended June 30, 2007.

Answers.com advertising revenue for the three months ended June 30, 2008 decreased $1,066 thousand compared to the three months ended June 30, 2007, mostly due to decreases in traffic. Answers.com average daily page views in the three months ended June 30, 2008 were 2,641,000, a decline of 41% compared to the average daily page views of 4,441,000 in the three months ended June 30, 2007. The Answers.com RPM in the three months ended June 30, 2008 was $6.18, a decline of 2% compared to the RPM of $6.31 in the three months ended June 30, 2007. The decline in traffic is primarily due to the July 2007 Google algorithm change that significantly impacted Answers.com

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traffic, reducing 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.

Answers.com advertising revenue for the six months ended June 30, 2008 decreased $2,006 thousand compared to the six months ended June 30, 2007, mostly due to decreases in traffic. Answers.com average daily page views in the six months ended June 30, 2008 were 2,933,000, a decline of 38% compared to the average daily page views of 4,693,000 in the six months ended June 30, 2007. The Answers.com RPM in the six months ended June 30, 2008 was $6.20, a decline of 1% compared to the RPM of $6.27 in the six months ended June 30, 2007. The decline in traffic is primarily due to the July 2007 Google algorithm change that significantly impacted Answers.com traffic, reducing 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.

Since the Google adjustment, we suspended our strategy of licensing new content, and, consequently, we are experiencing declines in Answers.com traffic. Historically, we operated on the premise that adding rich unique content to Answers.com positively impacted the site s traffic growth, guided by the principle that rich unique content was not only appreciated by the human user, rather, it was also highly valued by the search engines and their content indexing programs. While Answers.com receives significant SEO traffic to its rich content pages, the Google algorithm change caused us to doubt whether licensing additional content would yield a positive return. In recent months we made certain changes to Answers.com that have led us to believe that adding content may, once again, be a viable way to grow traffic, however, there is no assurance we will succeed in achieving renewed growth for Answers.com.

WikiAnswers.com advertising revenue for the three months ended June 30, 2008 increased $1,323 thousand compared to the three months ended June 30, 2007, due to increases in traffic, and to a lesser extent, due to improvement in RPM. WikiAnswers.com average daily page views in the three months ended June 30, 2008 were 2,318,000, an increase of 427% compared to the average daily page views of 440,000 in the three months ended June 30, 2007. We believe that the dramatic growth that WikiAnswers has experienced since we acquired it, in November 2006, is primarily due to the unique dynamics of the site. As our database of questions and answers grows, we draw new traffic, primarily from SEO, which in turn results in the creation of new questions and answers, or new content, which in turn drives additional growth. This is a self-perpetuating growth model. The WikiAnswers.com RPM during those periods rose from $4.42 to $7.11, primarily due to the inclusion of WikiAnswers under our Google Services Agreement, replacing the standard Adsense agreement that was entered into prior to our acquisition of WikiAnswers.

WikiAnswers.com advertising revenue for the six months ended June 30, 2008 increased $2,392 thousand compared to the six months ended June 30, 2007, due to increases in traffic, and to a lesser extent, due to improvement in RPM. WikiAnswers.com average daily page views in the six months ended June 30, 2008 were 2,101,000, an increase of 473% compared to the average daily page views of 367,000 in the six months ended June 30, 2007. We believe that the dramatic growth that WikiAnswers has experienced since we acquired it, in November 2006, is primarily due to the unique dynamics of the site. As our database of questions and answers grows, we draw new traffic, primarily from SEO, which in turn results in the creation of new questions and answers, or new content, which in turn drives additional growth. This is a self-perpetuating growth model. The WikiAnswers.com RPM during those periods rose from $4.41 to $7.01, primarily due to the inclusion of WikiAnswers under our Google Services Agreement, replacing the standard Adsense agreement that was entered into prior to our acquisition of WikiAnswers.

Approximately $200 thousand and $64 thousand of our advertising revenue in the three months ended June 30, 2008 and 2007, respectively, resulted from the efforts of our direct ad sales force. Approximately $431 thousand and $159 thousand of our advertising revenue in the six months ended June 30, 2008 and 2007, respectively, resulted from the efforts of our direct ad sales force. In an effort to improve monetization, in the fourth quarter of 2006, we began marketing directly to advertisers and generating additional advertising revenue. However, at the end of the second quarter of 2008 we decided to abandon that effort, and by the end of the third quarter of 2008, the direct sales staff will be leaving the Company.

Subscription revenue in the six months ended June 30, 2007 of $425 thousand resulted from the recognition of revenue from the sale of lifetime subscriptions to our GuruNet service prior to December 2003. As of December 31, 2006, we had approximately $425 thousand of deferred revenue relating to these subscriptions. Prior to 2007, we did not recognize any revenue from the lifetime subscriptions to our GuruNet service because the subscriptions had no defined term. On February 2, 2007, in accordance with our rights under the agreements we entered into with such subscribers, we terminated the GuruNet service and thereby extinguished our service obligations to our subscribers. As a result, we recognized the entire $425 thousand previously deferred, as revenue, in the first quarter of 2007. After the launch of Answers.com in January 2005, we ceased offering new subscriptions to GuruNet.

Revenue Trends by Web Property

The following table illustrates the historical trends of our two Web properties traffic, revenues and RPMs, by quarter, beginning the first quarter of 2007:

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	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2
Ad Revenue ($ - in thousands)						
Answers.com	2,768	2,551	1,861	2,270	1,828	1,485
WikiAnswers	116	177	304	704	1,185	1,500
Total	**2,884**	**2,728**	**2,165**	**2,974**	**3,013**	**2,985**
Answers.com	96%	94%	86%	76%	61%	50%
WikiAnswers	4%	6%	14%	24%	39%	50%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Traffic						
Answers.com	4,945,000	4,441,000	3,726,000	3,447,000	3,225,000	2,641,000
WikiAnswers	293,000	440,000	639,000	1,152,000	1,885,000	2,318,000
Total	**5,238,000**	**4,881,000**	**3,915,000**	**4,599,000**	**5,110,000**	**4,959,000**
Answers.com	94%	91%	84%	75%	63%	53%
WikiAnswers	6%	9%	16%	25%	37%	47%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
RPM						
Answers.com	$ 6.22	$ 6.31	$ 6.17	$ 7.16	$ 6.23	$ 6.18
WikiAnswers	$ 4.40	$ 4.42	$ 5.17	$ 6.64	$ 6.95	$ 7.11

Since we purchased WikiAnswers in November 2006, the website has grown significantly, each quarter, both in terms of traffic and revenue. Conversely, in 2007, and especially beginning the third quarter of 2007, when we experienced a drop in our traffic due to a search engine algorithm adjustment by Google, Answers.com s quarterly traffic and revenue has generally declined. In 2008, we expect that Answers.com traffic will decline, while we expect WikiAnswers traffic to continue to grow significantly.

Costs and Expenses

Cost of Revenue

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Change	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Change
	($ - in thousands)			($ - in thousands)		
Cost of revenue	1,416	1,320	96	2,809	2,464	345

Cost of revenue increased $96 thousand, or 7%, to $1,416, in the three months ended June 30, 2008 from $1,320 in the three months ended June 30, 2007. The increase in cost of revenue was due primarily to increases in data center costs of $78 thousand, including depreciation of information technology assets, increases in compensation costs of $58 thousand as a result of staffing additions, salary increases and the weak

U.S. dollar as compared to the Israel shekel, increases in traffic acquisition costs of $9 thousand, increased travel of $20 thousand, increases in overhead of $19 thousand, and increases in ad serving fees of $9 thousand. The aforesaid increases were partially offset by a reduction in amortization expense. Amortization expense results from intangible assets we purchased in connection with the Brainboost acquisition that took place in December 2005 and the WikiAnswers acquisition that took place in November 2006. The amortization of the Brainboost technology decreased by $89 thousand, since we wrote it off on May 25, 2008. The amortization of the intangible assets related to WikiAnswers decreased by $15 thousand in the three months ended June 30, 2008, since some of the assets we purchased are now fully amortized.

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Cost of revenue increased $345 thousand, or 14%, to $2,809, in the six months ended June 30, 2008 from $2,464 in the six months ended June 30, 2008. The increase in cost of revenue was due primarily to increases in data center costs of $156 thousand, including depreciation of information technology assets, increases in compensation costs of $129 thousand as a result of staffing additions, salary increases and the weak U.S. dollar as compared to the Israel shekel, increases in traffic acquisition costs of $22 thousand, increases in ad serving fees of $23 thousand, increases in travel of $22 thousand, increases in content licensing costs of $13 thousand, increases in overhead of $23 thousand, and increases in fees we pay to Google for web search of $10 thousand. Additionally, recruitment fees in the six months ended June 30, 2008 were $29 thousand, where no such expense was incurred in the six months ended June 30, 2007. The aforesaid increases were partially offset by a reduction in amortization expense. Amortization expense results from intangible assets we purchased in connection with the Brainboost acquisition that took place in December 2005 and the WikiAnswers acquisition that took place in November 2006. The amortization of the Brainboost technology decreased by $89 thousand, as it was written off on May 25, 2008. The amortization of the intangible assets related to WikiAnswers decreased by $31 thousand in the six months ended June 30, 2008, since some of the assets we purchased are now fully amortized.

Research and Development Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
		($ - in thousands)			($ - in thousands)	
Research and development	929	748	181	1,804	1,469	335

Research and development expenses increased $181 thousand, or 24%, to $929 thousand in the three months ended June 30, 2008 from $748 thousand in the three months ended June 30, 2007. The increase in research and development expenses was due primarily to an increase of $133 thousand in compensation, as a result of staffing additions, salary increases and the weak U.S. dollar as compared to the Israel shekel, and increases in overhead of $34 thousand, also impacted by the weak U.S. dollar as compared to the Israel shekel.

Research and development expenses increased $335 thousand, or 23%, to $1,804 thousand in the six months ended June 30, 2008 from $1,469 thousand in the six months ended June 30, 2007. The increase in research and development expenses was due primarily to an increase of $304 thousand in compensation-related expenses as a result of staffing additions, salary increases and the weak U.S. dollar as compared to the Israel shekel, and increases in overhead of $49 thousand, also impacted by the weak U.S. dollar as compared to the Israel shekel. Those increases were partially offset by a reduction of $22 thousand in outside consulting services.

Sales and Marketing Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
		($ - in thousands)			($ - in thousands)	
Sales and marketing	933	1,072	(139)	1,695	2,054	(359)

Sales and marketing expenses decreased $139 thousand or 13%, to $933 thousand during the three months ended June 30, 2008 from $1,072 thousand during the three months ended June 30, 2007. The decrease in sales and marketing expenses is due primarily to a decrease in compensation related expenses, excluding stock-based compensation, of $47 thousand, and a decrease in stock-based compensation of $176 thousand. These decreases resulted mostly from the termination of employment of our Chief Revenue Officer in the third quarter of 2007. The aforesaid decreases were partially offset by a charge of $90 thousand, in the second quarter of 2008, to account for the estimated cost of terminating certain service contracts relating to our abandoned direct ad sales efforts.

Sales and marketing expenses decreased $359 thousand or 17%, to $1,695 thousand during the six months ended June 30, 2008 from $2,054 thousand during the six months ended June 30, 2007. The decrease in sales and marketing expenses is due primarily to a decrease in compensation related expenses, excluding stock-based compensation, of $98 thousand, and a decrease in stock-based compensation of $311 thousand. These decreases resulted mostly from the termination of employment of our Chief Revenue Officer in the third quarter of 2007. The aforesaid decreases were partially offset by a charge of $90 thousand, in the second quarter of 2008, to account for the estimated cost of terminating certain service contracts relating to our abandoned direct ad sales efforts.

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General and Administrative Expenses

	Three Months Ended June 30, 2008	2007 ($ - in thousands)	Change	Six Months Ended June 30, 2008	2007 ($ - in thousands)	Change
General and administrative	1,198	1,019	179	2,329	1,945	384

General and administrative expenses increased $179 thousand, or 18%, to $1,198 thousand during the three months ended June 30, 2008 from $1,019 thousand during the three months ended June 30, 2007. The increase in general and administrative expenses was due primarily to increases in compensation costs of $121 thousand as a result of staffing additions, salary increases and the weak U.S. dollar as compared to the Israel shekel, increases in accounting fees of $43 thousand, as a result of issues related to the Redpoint transaction, increases in overhead of $32 thousand, mainly due to the weak U.S. dollar as compared to the Israel shekel , and the addition of investor relations services for $24 thousand, an expense we did not incur during the same period in 2007. The aforesaid increases were offset, to some extent, by a reduction in legal expenses of $24 thousand and a reduction in travel of $28 thousand.

General and administrative expenses increased $384 thousand, or 20%, to $2,329 thousand during the six months ended June 30, 2008 from $1,945 thousand during the six months ended June 30, 2007. The increase in general and administrative expenses was due primarily to increases in compensation costs of $255 thousand as a result of staffing additions, salary increases and the weak U.S. dollar as compared to the Israel shekel, increases in accounting fees of $80 thousand, mostly due to issues related to the Redpoint transaction, increases in overhead of $22 thousand, mainly due to the weak U.S. dollar, and the addition of investor relations services for $24 thousand, an expense we did not incur during the same period in 2007. The aforesaid increases were offset, to some extent, by a reduction in legal expenses of $19 thousand and a reduction in travel of $18 thousand.

Write-off of the Brainboost Answer Engine

	Three Months Ended June 30, 2008	2007 ($ - in thousands)	Change	Six Months Ended June 30, 2008	2007 ($ - in thousands)	Change
Write-off of the Brainboost Answer Engine	3,138		3,138	3,138		3,138

As a result of our decision to effectively abandon our use of the BAE, the net book value of the BAE, as of May 25, 2008, in the amount of $3,138 thousand, has been written off and the resulting charge is included in our statement of operations for the three and six months ended June 30, 2008.

Termination fees and write-off of costs relating to the terminated Lexico acquisition and abandoned follow-on offering

	Three Months Ended June 30,	Six Months Ended June 30,

	2008	2007 ($ - in thousands)	Change	2008	2007 ($ - in thousands)	Change
Termination fees and write-off of costs relating to the terminated Lexico acquisition and abandoned follow-on offering				2,543		2,543

During the six months ended June 30, 2008, we recorded a charge of $2,543 thousand for various costs and fees we incurred in connection with the terminated acquisition of Lexico and the follow-on offering of securities.

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Interest Income, Net

	Three Months Ended June 30, 2008	2007 ($ - in thousands)	Change	Six Months Ended June 30, 2008	2007 ($ - in thousands)	Change
Interest income, net	18	112	(94)	73	212	(139)

Interest income, net decreased $94 thousand, or 84%, to $18 thousand for the three months ended June 30, 2008 from $112 thousand for the three months ended June 30, 2007. The decrease in interest income resulted from lower average cash and investment securities balances, and lower short-term interest rates, during the three months ended June 30, 2008, as compared to the three months ended June 30, 2007. Additionally, certain transaction costs that we incurred in connection with the Redpoint Financing have been deferred and are being amortized to interest expense over one year. During the three months ended June 30, 2008, $15 thousand of such deferred costs have been amortized and charged to interest expense.

Interest income, net decreased $139 thousand, or 66%, to $73 thousand for the six months ended June 30, 2008 from $212 thousand for the six months ended June 30, 2007. The decrease in interest income resulted from lower average cash and investment securities balances, and lower short-term interest rates, during the six months ended June 30, 2008, as compared to the six months ended June 30, 2007. Additionally, certain transaction costs that we incurred in connection with the Redpoint Financing have been deferred and are being amortized to interest expense over one year. During the six months ended June 30, 2008, $15 thousand of such deferred costs have been amortized and charged to interest expense.

Other Expenses, Net

	Three Months Ended June 30, 2008	2007 ($ - in thousands)	Change	Six Months Ended June 30, 2008	2007 ($ - in thousands)	Change
Other expense, net	(11)	4	(15)	(49)	(12)	(37)

Other income (expense), net, during the three months ended June 30, 2008 was an expense of $11 thousand, compared to other income of $4 thousand in the three months ended June 30, 2008, a net change of $15 thousand. Other expenses in both periods resulted from foreign currency exchange net gains and losses.

Other expense, net increased $37 thousand, or 308%, to $49 thousand for the six months ended June 30, 2008 from $12 thousand for the six months ended June 30, 2007. Other expenses in both periods resulted from foreign currency exchange net losses.

Income Tax (Expense) Benefit

We had net operating loss carryforwards, or NOLs, for federal income tax purposes of approximately $54 million at December 31, 2007, and approximately $49 million at December 31, 2006. The federal net operating losses will expire if not utilized on various dates from 2019 through 2027. Because we have experienced one or more ownership changes, within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, an annual limitation is imposed on our ability to use at least $32 million of these carryforwards. Our best estimate at this time is that the annual limitation on the use of at least $32 million of our NOLs is approximately $1.8 million per year. Any unused portion of the $1.8 million annual limitation applicable to our restricted NOLs is available for use in future years until such NOLs are scheduled to expire. We are currently evaluating what impact, if any, the recent Redpoint Financing will have on our ability to use our NOLs. Our Israeli subsidiary has capital loss carryforwards of approximately $800 thousand that can be applied to future capital gains for an unlimited period of time under current tax rules.

Liquidity and Capital Resources

Our principal sources of liquidity are cash and cash equivalents, which were $10,187 thousand as of June 30, 2008. In the six months ended June 30, 2008, our cash used in operations was $2,335 thousand. We have used cash in our operations in virtually every quarter since our inception. Our ability to generate cash from operations in the future will depend primarily on our ability to produce net income before non-cash expenses such as depreciation and amortization and stock-based compensation.

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	Six Months Ended June 30, 2008	2007
	($ - in thousands)	
Net cash used in operating activities	(2,335)	(8)
Net cash provided by (used in) investing activities	308	(546)
Net cash provided by financing activities	5,369	145

Operating Activities

Despite a net loss of $8,286 thousand in the six months ended June 30, 2008, net cash used in operations was $2,335 thousand. The adjustments to reconcile the two amounts, including changes to the balances of our various operating assets and liabilities, are noted in detail on the accompanying statement of cash flows. The largest reconciling items are the write-off of the Brainboost Answers Engine of $3,138 thousand, $921 thousand of operating expenses that were the result of non-cash, stock-based compensation to employees and directors, depreciation and amortization of $831 thousand, and the write-off of amounts that were paid in prior periods relating to the terminated Lexico acquisition and abandoned follow-on offering, of $663 thousand.

Investing Activities

Net cash provided by (used in) investing activities in the six months ended June 30, 2008 and 2007, is attributable mostly to the proceeds from the sale of investment securities, less cash used for purchases of investment securities, and cash used for capital expenditures, as delineated in our Consolidated Statement of Cash Flows.

Financing Activities

Net cash flow from financing activities in the six months ended June 30, 2008 was almost entirely from the Redpoint Financing. Cash flow from financing activities in the six months ended June 30, 2007 resulted from the exercise of stock options.

Future Operations

As a result of the Redpoint Financing, in June 2008, we raised net proceeds of approximately $5.4 million, significantly improving our cash position. As part of the Redpoint Financing, Redpoint received a warrant to purchase units, exercisable at any time until June 16, 2009, for up to $7 million of Series B Convertible Preferred Stock and Series B Purchase Warrants. The Series A Preferred Stock contains a redemption provision which allows the holder of a majority of the Series A Preferred Stock to request redemption, at any time on or after June 16, 2014, of all or any part of the outstanding Series A Preferred Stock. If issued, the Series B Preferred Stock would have a similar redemption provision.

The funding we already received from Redpoint is important to us because of prior events that brought our cash position down considerably. In connection with the abandoned proposed public offering and the terminated Lexico purchase agreement, we made cash payments of $1,878 thousand in the first quarter of 2008, in addition to the $665 thousand we expensed in 2007, for termination fees and costs. These payments had a material impact on the balance of our cash and cash equivalents, which were $5,462 thousand as of March 31, 2008.

We believe we have sufficient cash to meet our planned operating needs for the next twelve months, based on our current cash levels and expected cash flow from operations in 2008. However, our business strategy includes growth through additional business combinations and licensing or acquiring products and technologies complementary to our business, which could require use of a significant amount of our available cash. We may therefore need to raise additional capital through future debt or equity financing to finance such initiatives. However, we cannot be certain that additional financing will be available on acceptable terms, or at all. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution.

Contractual Obligations and Commitments

As of June 30, 2008, we had the following known contractual obligations and commitments ($ - in thousands):

	Purchase Contracts	**Capital Leases**	**Operating Leases**	**Total(1)**
2008 (six months ending December 31, 2008)	227	43	224	494
2009	300	86	403	789
2010	45	85	241	371
2011		31	1	32
	572	245	869	1,686

(1) The above table does not include unrecognized tax benefits of $328 thousand.

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Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities in which we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities or any other obligations under a variable interest in an unconsolidated entity that provides us with financing, liquidity, market risk or credit risk support.

Quantitative and qualitative disclosures about market risk

Currency Risk. Our revenue is denominated solely in U.S. dollars. Most of our expenses are also based in U.S. dollars, however, a very significant portion of our expenses are denominated in New Israel Shekels, or NIS. We expect this level of NIS expenses to continue for the foreseeable future. In 2007, the value of the U.S. dollar weakened against the value of NIS by 9%, and it weakened an additional 13% during the six months ending June 30, 2008. If the value of the U.S. dollar further weakens against the value of NIS, there will be a negative impact on our results of operations. In addition, to the extent we hold cash and cash equivalents that are denominated in currencies other than the U.S. dollar, we are subject to the risk of exchange rate fluctuations. We use various hedging tools, including forward contracts and options, to lessen the effect of currency fluctuations on our income.

Other Market Risk. As of June 30, 2008, all of our excess cash was invested in money market accounts that we believe have no material exposure to the principal amount nor to interest rate risk. Historically, we did invest much of our excess cash in various highly liquid investments including auction rate, investment grade, corporate and municipal debt instruments, and auction rate preferred shares of closed-end investment funds that invest in long-term fixed income securities, with auction reset periods (ARS s) of 28 days. Recently, many holders of ARS instruments have experienced liquidity difficulties due to the lack of sufficient demand for the securities on the reset dates. While we did hold some ARS s as of December 31, 2007, we sold all our interests in the first quarter of 2008 and did not experience a loss upon such sales. Currently, we do not own any ARS s, and we have ceased making any investments in ARS s.

Critical Accounting Estimates

While our significant accounting policies are more fully described in the notes to our audited consolidated financial statements for the years ended December 31, 2007 and 2006, and our consolidated financial statements for the three months and six months ended June 30, 2008 and 2007, we believe the following accounting policies to be the most critical in understanding the judgments and estimates we use in preparing our consolidated financial statements.

Goodwill, Intangibles and Other Long-Lived Assets

We account for our purchases of acquired companies in accordance with SFAS No. 141, Business Combinations, or SFAS 141, and for goodwill and other identifiable definite and indefinite-lived acquired intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, or SFAS 142. Additionally, we review our long-lived assets for recoverability in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, or SFAS 144.

The identification and valuation of intangible assets and the determination of the estimated useful lives at the time of acquisition are based on various valuation methodologies including reviews of projected future cash flows. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of our goodwill and other intangible assets, and potentially result in a different impact to our results of operations. Further, changes in business strategy and/or market conditions may significantly impact these judgments thereby impacting the fair value of these assets, which could result in an impairment of the goodwill and acquired intangible assets.

We evaluate our long-lived tangible and intangible assets for impairment in accordance with SFAS 142, Goodwill and Other Intangible Assets, with the annual impairment testing date set at September 30, and in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. While we use available information to prepare our estimates and to perform impairment evaluations, the completion of annual impairment tests requires significant management judgments and estimates.

In response to the search engine algorithm adjustment by Google in July 2007, we examined what impact this event might have on the recoverability of our long-lived assets in accordance with the guidance contained in SFAS 142 and 144. As a result of our analysis, we concluded that the carrying value of our assets has not been impaired. However, while we use available information to prepare our estimates and to perform impairment evaluations, our recoverability calculations and impairment tests require significant management judgment and estimates. These estimates include our projections of undiscounted cash flows and assumptions used in calculating projected RPM, page-views, and expenses. In addition, a certain degree of judgment was exercised in determining asset groups in accordance with generally accepted accounting principles. Had our estimates and assumptions differed, the accounting treatment might have resulted differently. Future actual results could differ significantly from the anticipated results as reflected in our analysis.

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Accounting for Stock-based Compensation

We account for stock-based awards under SFAS No. 123R which requires measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest, using the modified prospective method. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider various factors when estimating expected forfeitures, including historical experience. Actual results may differ substantially from these estimates.

We determine the fair value of stock options granted to employees and directors using the Black-Scholes valuation model, which considers the exercise price relative to the market value of the underlying stock, the expected stock price volatility, the risk-free interest rate and the dividend yield, and the estimated period of time option grants will be outstanding before they are ultimately exercised. Subsequent to our IPO, through 2006, we did not have sufficient history to actually predict our volatility and therefore our assumptions about stock price volatility were based on the volatility rates of comparable publicly held companies. These rates may or may not reflect our actual stock price volatility. During 2007, as we accumulated our own volatility history over longer periods of time, our assumptions about our stock price volatility were based on a rate that was derived by taking into consideration the volatility rates of the aforesaid comparable publicly held companies as well as our own historical volatility rates. Beginning 2008, we are estimating our expected stock volatility based solely on our own historical stock volatility rates. Had we made different assumptions about the market value of our stock, stock price volatility or the estimated time option and warrant grants will be outstanding before they are ultimately exercised, the related stock based compensation expense and our net loss and net loss per share amounts could have been significantly different, in the three months and six months ended June, 2008 and 2007.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves management estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have almost fully offset our U.S. net deferred tax asset with a valuation allowance. Our lack of earnings history and the uncertainty surrounding our ability to generate US taxable income prior to the expiration of such deferred tax assets were the primary factors considered by management in establishing the valuation allowance.

In July 2006, FASB released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109, or FIN 48, effective for fiscal years beginning after December 15, 2006. FIN 48 prescribes how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Additionally, for tax positions to qualify for deferred tax benefit recognition under FIN 48, the position must have at least a more likely than not chance of being sustained upon challenge by the respective taxing authorities. We adopted the provisions of FIN 48 as of January 1, 2007 and it has not had a material impact on our financial statements.

Redpoint Financing

We estimated the fair value of the three components embodied in our agreement with Redpoint: (i) Series A Convertible Preferred Stock, (ii) Series A Purchase Warrants and (iii) the warrant to acquire Series B Convertible Preferred Stock and Series B Purchase Warrants. We used various valuation models and techniques to determine the individual values of the three components, including Monte Carlo and Black-Scholes. While we believe we have applied appropriate judgment in the assumptions and estimates, variations in judgment in applying assumptions and estimates used in the valuation could have a material effect upon the valuation results, and thus, on our financial statements.

The Series A Convertible Preferred Stock issued as part of the Redpoint Financing contains an embedded conversion option which could possibly require separate accounting under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities . According to paragraph 12(a) of SFAS 133, in order to determine whether separate accounting is required, one has to evaluate whether the economic characteristics and risks of the conversion option are closely related to the host contract, and the nature of the host contract. We exercised judgment and evaluated this matter in accordance with EITF Topic D-109, Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No.133 (Topic D-109). Topic D-109 conveys the SEC staff s views on determining whether the characteristics of a host contract in a hybrid financial instrument issued in the form of a share is more akin to debt or equity. In evaluating an embedded derivative feature for separation under SFAS 133, the consideration of the economic characteristics and risks of the host contract should not ignore the stated or implied substantive terms and features of the hybrid financial instrument. We considered various factors including, redemption provisions, stated rate, voting rights, whether returns are discretionary or mandatory, collateral requirements, participation in residual earnings and liquidation preferences, in making our own determination that the host contract was more akin to equity. Had we determined that the host contract was more akin to debt and not equity it would have impacted the accounting for the host contract and the embedded conversion option and could have had a material impact on our financial statements.

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Recently Issued Accounting Pronouncements

In March 2008, the FASB issued Statement of Financial Accounting Standards 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 gives financial statement users better information about the reporting entity s hedges by providing for qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those years. We do not expect the adoption of SFAS 161 to have a material effect on its financial statements.

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1(FSP APB 14-1), *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* . FSP APB 14-1 requires issuers of convertible debt that may be settled wholly or partly in cash when converted to account for the debt and equity components separately. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 and must be applied retrospectively to all periods presented. We are currently evaluating the potential impact of the adoption of FSP APB 14-1 on our consolidated financial statements.

Quarterly Results

The following table sets forth our historical unaudited quarterly consolidated statement of operations data for 2007 and the first two quarters of 2008. You should read this information together with our unaudited consolidated financial statements and the related notes appearing elsewhere in our filings. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

	Quarter Ended					
	Mar. 31, 2007	**Jun. 30, 2007**	**Sep. 30, 2007**	**Dec. 31, 2007**	**Mar. 31, 2008**	**Jun. 30, 2008**
	(in thousands, except page view and RPM data)					
Revenues:						
Advertising revenue	$ 2,884	$ 2,728	$ 2,165	$ 2,974	$ 3,013	$ 2,985
Answers services licensing	77	82	43	17	18	18
Subscriptions	425					
	3,386	2,810	2,208	2,991	3,031	3,003
Costs and expenses:						
Cost of revenue	1,144	1,320	1,179	1,247	1,393	1,416
Research and development	722	748	769	739	875	929
Sales and marketing	982	1,072	1,221	676	762	933
General and administrative	926	1,019	1,058	1,017	1,131	1,198
Write-off of the Brainboost Answers Engine						3,138
Termination fees and write-off of costs relating to the terminated Lexico acquisition and abandoned follow-on offering					2,543	

Total operating expenses	3,774	4,159	4,227	3,679	6,704	7,614
Operating loss	(388)	(1,349)	(2,019)	(688)	(3,673)	(4,611)
Interest income, net	100	112	88	85	55	18
Other income (expense), net	(15)	4			(38)	(11)
Loss before income taxes	(303)	(1,233)	(1,931)	(603)	(3,655)	(4,604)
Income taxes(1)		(14)	(19)	(15)	(11)	(15)
Net loss	$ (303)	$ 1,247)	$ (1,950)	$ (618)	$ (3,667)	$ (4,619)
Other Data:						
Adjusted EBITDA(1)	$ 160	$ (306)	$ (727)	$ 180	$ (181)	$ (670)
Answers.com page views	4,945,000	4,441,000	3,726,000	3,447,000	3,225,000	2,641,000
WikiAnswers page views	293,000	440,000	639,000	1,152,000	1,885,000	2,318,000
Answers.com RPM	$ 6.22	$ 6.31	$ 6.17	$ 7.16	$ 6.23	$ 6.18
WikiAnswers RPM	$ 4.40	$ 4.42	$ 5.17	$ 6.64	$ 6.95	$ 7.11

(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, 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:

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- 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; (b) the Q2 2008 write-off of the Brainboost Answer Engine; (c) compensation expense resulting from the portion of the stock component of the Brainboost purchase price that was deemed compensation expense; (d) penalty payments to the sellers of Brainboost resulting from failure to timely register the common stock they received in connection with the acquisition; (e) amortization of intangible assets relating to our acquisition of WikiAnswers; and (f) various costs and fees we incurred in connection with the terminated acquisition of Lexico and the abandoned follow-on offering of securities. 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 for the six months ended June 30, 2008 and the years ended December 31, 2007 and 2006 was $2,685 thousand, $1,302 thousand and $62 thousand, 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.

- 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 of 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 an integral 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:

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	Quarter Ended					
	Mar. 31, 2007	Jun. 30, 2007	Sep. 30, 2007	Dec. 31, 2007	Mar. 31, 2008	Jun. 30, 2008
	(In thousands)					
Net loss	$ (303)	$ (1,247)	$ (1,950)	$ (618)	$ (3,667)	$ (4,619)
Interest income, net	(100)	(112)	(88)	(85)	(55)	(18)
Foreign currency exchange rate differences	15	(4)			38	11
Income taxes		14	19	15	11	15
Depreciation and amortization	448	444	464	442	448	383
Stock-based compensation	525	599	574	426	501	420
Write-off of the Brainboost Answers Engine						3,138
Termination fees and write-off of costs relating to the terminated Lexico acquisition and abandoned follow-on offering					2,543	
Cost related to August 2007 layoffs			254			
Subscription revenue from lifetime subscriptions	(425)(1)					
Adjusted EBITDA	$ 160	$ (306)	$ (727)	$ 180	$ (181)	$ (670)

(1) Recognition of previously deferred revenue, following the termination of the GuruNet service in February 2007.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currency Risk. Our revenue is denominated solely in U.S. dollars. Most of our expenses are also based in U.S. dollars; however, we are subject to a significant amount of expenses that are denominated in New Israel Shekels (NIS). We expect this level of NIS expenses to continue in the foreseeable future. If the value of the U.S. dollar weakens against the value of NIS, there will be a negative impact on our results of operations. In addition, to the extent we hold cash and cash equivalents that are denominated in currencies other than the U.S. dollar; we are subject to the risk of exchange rate fluctuations. We often hedge a portion of our foreign currency commitments. Our derivative transactions are mainly designed to hedge short term cash flows related to anticipated expenses.

Other Market Risk. We invest our excess cash in highly liquid investments with an original maturity of three months or less. Due to the short-term nature of these investments, we believe that there is no material exposure to interest rate risk arising from our investments. Based on our investment policy, such instruments are highly rated by rating agencies and therefore we believe that there is no material exposure to the principal amount from our investments.

ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of June 30, 2008, our Chief Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms. Our Chief Executive Officer and Principal Financial Officer also concluded that, as of June 30, 2008, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

During the three months ended June 30, 2008, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently involved in any legal proceedings. However, from time to time, we may receive various legal claims incidental to our normal business activities, such as intellectual property infringement claims and claims of defamation and invasion of privacy. Although the results of claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial position, results of operations, or cash flows.

ITEM 1A. RISK FACTORS

Risks Relating 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 $4.1 million and $8.6 million for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007, we had an accumulated deficit of approximately $59 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 the second quarter of 2008, excluding Google-directed definition link traffic, was approximately 73% of the overall traffic to our Web properties, the majority of which originated from Google and, to a lesser but still significant extent, Yahoo!. Traffic to WikiAnswers from search engines during the same period was even more significant, amounting to approximately 90% of its overall traffic. If our traffic from search engines declines for any reason, we would suffer a significant decline in overall traffic and revenue. For example, in July 2007, a search engine algorithm adjustment by Google led to a drop in Google directed traffic to Answers.com. This adjustment reduced our overall traffic by approximately 28% based on the average traffic directed to Answers.com from Google for the week prior to the adjustment as compared to the week after. As a result, our revenue declined proportionately. In response to the Google algorithm adjustment, we reduced our headcount and related compensation costs, reducing our monthly base payroll expenses by approximately 12%. In September 2007, Yahoo! dropped our content from its search index, which led to a brief periodic drop in 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.

We depend on Google to direct traffic to Answers.com through its definition link, and the loss of this source of traffic could significantly 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 the second quarter of 2008, the primary and secondary traffic from the Google definition link accounted for approximately 7% 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 direct traffic and the corresponding ad revenues, which would adversely affect our business and financial results.

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

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

- take certain prohibited actions including, among other things:

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- 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 terms as those provided in the GSA. Termination of the GSA and our failure to replace it on equally favorable terms could result in a material reduction in our ad revenues and could adversely affect our business and financial results.

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

We closely monitor the ratio between ad elements and actual content appearing on our Web pages. In the future we may decide that in order to enhance the user-experience and increase user satisfaction, our pages should display fewer ad elements. Displaying less ad-intensive Web pages is likely to result in faster page-load and offering more content per-page is likely to appeal more to the user. A better user experience may result in more stickiness on our Web properties and a higher rate of user-retention and return visits. However, there is no assurance that reducing advertising on our Web properties will result in better user-retention and return visits and there can be no guarantee that the short term reduction in ad revenues will pay off in the long term in the form of increased traffic. A decrease in the number of ad elements displayed on our Web properties will result in a short-term drop in RPM and a reduction in advertising revenues which will have an adverse impact on our results of operations.

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

WikiAnswers is currently our primary growth driver. We estimate that in the second half of 2008, WikiAnswers will exceed Answers.com in both traffic and revenue. WikiAnswers is experiencing a growth phenomenon that we refer to as a network effect . The site s growth facilitates further growth. As a result, we are spending increasing amounts of money and devoting greater resources to the development of WikiAnswers. If, for whatever reason, WikiAnswers fails to perform as well as we anticipate, and the growth we are experiencing falters or ceases, 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 have seen a very high correlation between growth in questions and answers and growth in the site s page views. We need to attract users to 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.

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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 June 30, 2008, the community enjoyed the benefit of well over 300 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.

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 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 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.

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

Although worldwide online advertising spending is growing steadily, it represents only a small percentage of total advertising expenditures. Our advertisers can generally terminate their contracts with us at any time. Advertisers will not continue to do business with us if their investment in Internet advertising with us does not generate sales leads, and ultimately customers, or if we do not deliver their advertisements in an appropriate and effective manner. If the Internet does not continue to be as widely accepted as a medium for advertising and the rate of advertising on the Internet increase, our ability to generate increased revenues could be adversely affected. We believe that growth in our ad revenues will also depend on our ability to increase the number of pages on our Web properties to provide more advertising inventory. If we fail to increase our advertising inventory at a sufficient rate, our ad revenues could grow more slowly than we expect, which could have an adverse effect on our financial results.

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

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

We face significant competition from 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, Askville (owned by Amazon), Yedda (owned by AOL) and Answerbag.com (owned by Demand Media, Inc.). 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.

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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. For example, we experienced such disruption, diversion and increased expenses during the course of our recent failed attempt to acquire Lexico Publishing Group, LLC. Future acquisitions may reduce our cash available for operations and other uses and could result in an increase in amortization expense related to identifiable assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt, which could harm our business, financial condition and operating results.

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

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

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

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

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

Our ability to provide high quality user experience depends on the efficient and uninterrupted operation of our computer and communications systems. Over time, our Web properties have experienced significant increases in traffic, and we continuously seek to further increase our user base. Accordingly, our Internet servers must accommodate spikes in demand for our Web pages in addition to potential significant growth in traffic. Delays and interruptions could frustrate users and reduce traffic on our Web properties, adversely affecting our operations and growth

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prospects.

We currently outsource our Web hosting services to Data Return LLC, recently acquired by Terremark Worldwide, Inc. We believe the economic justification of outsourcing our Web hosting services has diminished, thus, we are in the process of migrating our Web properties to co-location facilities and managing 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 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

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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

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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.

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.

We could issue additional shares of common stock or securities convertible into or exercisable for common stock, which might dilute your percentage ownership interest in our company.

We have authorized 30,000,000 shares of our common stock, of which approximately 15,200,000 shares were issued and outstanding after giving effect to the assumed exercise of all outstanding warrants and options and assumed conversion of preferred stock as of July 30, 2008. Our board of directors has the authority, without action or vote of our stockholders in many cases, to issue all or a part of any authorized but unissued shares. Such stock issuances may be made at a price that reflects a discount from the then-current trading price of our common stock. In addition, in order to raise the capital that we may need at today s stock prices, we will need to issue securities that are convertible into or exercisable for a significant amount of our common stock. For example, on June 16, 2008, we sold Series A Convertible Preferred Stock and related warrants for $6.0 million in the Redpoint Financing. See Recent Developments for a description of these transactions and the related securities. These issuances may dilute your percentage ownership interest, which will have the effect of reducing your influence on matters on which our stockholders vote. You may incur additional dilution if holders of stock options, whether currently outstanding or subsequently granted, exercise their options or if warrant holders exercise their warrants to purchase shares of our common stock. In addition, these issuances, or the perception that such issuances may occur in the future, may have a depressant effect on our stock price and make it more difficult to raise capital in the future on reasonable terms or at all.

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 7,859,890 shares of common stock or approximately 15,200,000 shares of common stock after giving effect to the assumed exercise of all outstanding warrants and options and assumed conversion of preferred stock**.** Due to the limited number of authorized shares available for issuance and because of the significant competition for acquisitions, we may not able to consummate an acquisition until we increase the number of shares we are authorized to issue. To facilitate the possibility and flexibility of raising of additional capital or the completion of potential acquisitions, we will seek shareholder approval to increase the number of our authorized shares of common stock. We can provide no assurance that we will succeed in amending our certificate of incorporation to increase the number of shares of common stock we are authorized to issue.

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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 on our common stock in the foreseeable future.

We may incur penalties for late registration of the common stock underlying the Series A Convertible Preferred Stock and the Common Stock Purchase Warrants.

Under the terms of the registration rights agreement we entered into with the holders of our Series A Convertible Preferred Stock, we are obligated to register the common stock underlying the Series A Convertible Preferred Stock and the Common Stock Purchase Warrants. The registration rights carry penalties in the event we do not meet these registration obligations. We agreed to use our commercially reasonable best efforts to cause the registration statement to be declared effective by the SEC by November 13, 2008. If this deadline is not met, or if sales of all of the securities covered by the registration statement cannot be made, whether because of our failure to keep the registration statement effective, or for various other reasons, then we must pay liquidated damages in cash to the holders of our Series A Convertible Preferred Stock in the amount of 1.0% per month, on a daily pro rata basis, up to a maximum of 8.0%, of the aggregate purchase price.

We have issued and could issue additional 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. On June 16, 2008 as part of the Redpoint Financing, we issued 60,000 shares of Series A Convertible Preferred Stock. In the event the Unit Warrant is exercised we will issue shares of Series B Convertible Preferred Stock.

The holders of our Series A Convertible Preferred Stock are entitled to receive liquidation payments in preference to the holders of our common stock.

As of July 30, 2008, 60,000 shares of our Series A Convertible Preferred Stock were outstanding. Pursuant to the terms of the certificate of designation creating the Series A Convertible Preferred Stock, upon a liquidation of our company, the holders of shares of the Series A Convertible Preferred Stock are entitled to receive a liquidation payment prior to the payment of any amount with respect to the shares of our common stock. The amount of this preferential liquidation payment is equal to the greater of (i) $100 per share of Series A Convertible Preferred Stock, plus the amount of any accrued but unpaid dividends on those shares and any other fees or liquidated damages owing thereon or (ii) such amount per share as would have been payable had all shares of Series A Convertible Preferred Stock been upon any such liquidation converted to common stock immediately prior to such liquidation. Dividends accrue on the shares of Series A Convertible Preferred Stock at a rate of 6% per annum. In addition, in the event the Unit Warrant is exercised we will issue up to 70,000 shares of Series B Convertible Preferred Stock. If issued, the Series B Convertible Preferred Stock would have pari passu rights with the Series A Convertible Preferred Stock upon a liquidation of our company to receive a liquidation payment prior to the payment of any amount with respect to the shares of our common stock on substantially similar terms as the Series A Convertible Preferred Stock.

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

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especially relevant for us because Internet companies often 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.

We determined that we had material weaknesses in our internal control over financial reporting. As a result, current and potential stockholders could lose confidence in our financial reporting, which could harm our business and trading price of our stock.

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. We have dedicated significant amounts of time and resources to ensure compliance with this legislation for the year ended December 31, 2007. Based on their evaluation, our principal executive and principal financial officers concluded that, as of December 31, 2007, our disclosure controls and procedures were not effective due to the material weaknesses in our internal controls over (i) access to, and changes in, our information technology financial applications and underlying financial data; and (ii) the authority of our officers to obligate the Company. Because of these material weaknesses, our management concluded that, as of December 31, 2007, we did not maintain effective internal control over financial reporting based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Additionally, Somekh Chaikin, a member of KPMG International, issued an adverse opinion with respect to the effectiveness of our internal controls over financial reporting as of December 31, 2007. As a result, current and potential stockholders could lose confidence in our financial reporting, which could harm our business and trading price of our common stock.

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.

If we are not able to issue our financial statements 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.

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

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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 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 December 31, 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, 2007, and the first six months of 2008, the U.S. dollar depreciated against the NIS by 8.2%, 9.0%, and 12.8%, respectively. 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 often 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

N/A

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

N/A

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ITEM 5. OTHER INFORMATION

N/A

ITEM 6. EXHIBITS

10.1	Amendment to Amended and Restated Employment Agreement between GuruNet Israel Ltd. and Robert S. Rosenschein dated July 30, 2008.
31.1	Certification of Chief Executive Officer required under Rule 13a-14(a)/15d-14(a) under the Exchange Act.
31.2	Certification of Principal Financial Officer required under Rule 13a-14(a)/15d-14(a) under the Exchange Act.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

ANSWERS CORPORATION
(Registrant)

Date: August 4, 2008	By:	/s/ Robert S. Rosenschein
		Robert S. Rosenschein Chief Executive Officer
Date: August 4, 2008	By:	/s/ Steven Steinberg
		Steven Steinberg Chief Financial Officer (Principal Financial Officer)