
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2 to
FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005	**Commission File Number 001-32255**

ANSWERS CORPORATION
(Name of small business issuer in its charter)

Delaware	**98-0202855**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Jerusalem Technology Park
The Tower
Jerusalem 91481 Israel
(Address of principal executive offices)

Issuer's telephone number, including area code: **972-2-649-5000**

Securities registered under Section 12(g) of the Exchange Act:

Title of Class

Common Stock, $0.001 par value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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. x Yes o No
Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy of information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act o Yes x No

State issuer’s Revenues for its most recent fiscal year: $2,053,095

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days:

7,377,077 shares of $0.001 par value common stock at $10.46 per share as of March 15, 2006 for a market value of $77,185,145. Shares of common stock held by any executive officer or director of the issuer and any person who beneficially owns 10% or more of the outstanding common stock have been excluded from this computation because such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

State the number of shares outstanding of each of the issuer's class of common equity, as of the latest practicable date: 7,728,174 shares of common stock, $0.001 par value (as of March 17, 2006.)

Transitional Small Business Disclosure Format (Check one): o Yes x No

Explanatory Note

This amendment is being filed to amend Part I Item 1 (Business) and Part II Item 6 (Management's Discussion and Analysis or Plan of Operation) in order to better describe our contractual relationships with Google, Inc. and Shopping.com, Inc. Except for the foregoing and as set forth in Form 10-KSB/A filed on April 13, 2006, no attempt has been made in this Amendment No. 2 to Form 10-KSB to modify or update other disclosures as presented in the original Form 10-KSB filed on March 20, 2006.

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This Form 10-KSB contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by our use of words such as "may," "could," "should," "project," "believe," "anti "expect," "plan," "estimate," "forecast," "potential," "intend," "continue" or the negative or other variations of these other similar words. Such forward-looking statements include, but are not limited to, statements regarding the results of product development efforts and the scope and success of future operations. Such statements are only predictions and our actual results may differ materially from those anticipated in these forward-looking statements. Factors that may cause such differences include, but are not limited to, those discussed under "Risk Factors" in Item 6 and elsewhere in this Form 10-KSB for the year ended December 31, 2005, as filed with the Securities and Exchange Commission, including among others the uncertainties associated with our ability to increase the number of users visiting our Website, our ability to increase the number of partners who will generate increased traffic to our Website, our ability to improve the monetization of our products, a decision by Google to stop directing user traffic to Answers.com through its definition link, a decision by search engines to change the algorithms responsible for *directing search queries to the web pages that are most likely to contain the information being sought by Internet users or restrict the flow of users visiting our Website, our ability to renew current contracts with content providers on commercially acceptable terms or that our costs with respect to these contracts will not increase prohibitively following any renewal, the risks of litigation relating to our intellectual property, the risks associated with dependence upon key personnel and the need for additional financing. We do not assume any obligation to update forward-looking statements as circumstances change.*

PART I

Item 1. Business

General

We operate an answer-based service that provides computer users with content covering millions of topics, through our Web site, Answers.com, our optional downloadable applications and distribution channels. Our technology aggregates and presents information from disparate sources and delivers results to users' queries in a single consolidated view - a snapshot of multi-faceted definitions and explanations from attributable reference sources. As a result of our intelligent aggregation of multiple sources of content, our Answers.com topic pages (called an AnswerPage) often appear among the top links on search results pages of Internet search engines. Further, we also obtain traffic from users who visit www.answers.com directly to research topics. We seek to differentiate ourselves by providing our users with relevant information that can be helpful alongside results achieved through traditional search engines. Answers.com also includes other related information in various formats, such as charts, graphs and maps, and provides pointers to relevant sites, blogs and other external search resources.

On January 3, 2005, we announced the release of Answers.com, a free-access website that had been launched in August 2004 in beta version. Prior to January 2005, we were primarily in the business of selling subscriptions for access to our answer-based product.

In conjunction with Answers.com, we also released 1-Click Answers(TM), a software tool that facilitates more efficient access to Answers.com. 1-Click Answers(TM) allows users working in almost *any* application, such as e-mail, spreadsheet, word processing, database or other program to click on a word or phrase within a document and access Answers.com's online library and its display of information about that word or phrase in a web browser or pop-up window. While Web users enjoy our integrated reference information, our basic Web site does not provide the "1-Click" functionality and context analysis that we include in our supplemental 1-Click Answers(TM) software version. 1-Click Answers(TM) is available for users of both Microsoft Windows(R) (via the "alt-click" combination) and Apple's Macintosh OS X (by selecting the text and applying the Cmd-Shift-G keys). For example, when clicking on the word "Ford" appearing in the context of Ford Motor Company, Harrison Ford or Francis Ford Coppola, the system will process and recognize the context and deliver information on vehicles, movie stars and film directors, respectively. In Windows, 1-Click Answers(TM) also includes a downloaded toolbar for query lookup while using Microsoft Internet Explorer for Windows(R) as well as a docked AnswerBar utility.

Our primary revenue source for monetizing Answers.com traffic is advertising. Most of our ad revenue is earned from sponsored text-based links and image ads, either as pay-per-performance ads or paid-for-impression advertising. In the pay-for performance model, we earn revenue based on the number of clicks associated with such ads; in the paid-for-impression model, our revenues are derived from the display of ads.

In addition to Answers.com organic traffic, we partner with third-party sites that deliver our services to their users. The fees we pay to our distribution channels are often calculated as a percentage of the revenue we earn by delivering services to their users. When a third-party site monetizes our content using their own revenue mechanism, we are paid by that partner. These arrangements are based on various formulas, including a percentage of the revenues they earn by delivering our services to their users, fees based on the number of user queries and fixed periodic fees.

Answers.com's collection of over three million answers is drawn from over sixty titles from brand-name publishers, as well as original content created by Answers.com's own editorial team. Among the titles we currently license from third-party sources are:

- AccuWeather

- All Media Guide
- The American Heritage Dictionary (Fourth Edition) from Houghton Mifflin
- CIA World Factbook 2005, prepared by the Central Intelligence Agency
- Columbia University Electronic Encyclopedia (Sixth Edition)
- Computer Desktop Encyclopedia

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- Gale Encyclopedia of Cancer
- The History of Science and Technology, from Houghton Mifflin
- MarketWatch, Inc. from Dow Jones
- Taylor's Dictionary for Gardeners, from Houghton Mifflin
- West's Encyclopedia of American Law (First Edition)
- Wikipedia

By attributing the data source of each piece of our information on each web page, we enable our users to make an independent evaluation as to the credibility of our data.

Industry Background

The emergence and wide acceptance of the Internet has fundamentally changed how millions of people and businesses find information, shop and purchase goods and services. Worldwide, there are over 1 billion people using the Internet, with 225 million in North America. Online search is the primary tool most people rely on to carry out everyday research. Web search engines are the functionalities people use in seeking to locate specific information, goods and services. According to Nielson/NetRatings, in December 2005, the number of searches performed on search engines in the United States increased by 55% to 5.1 billion, in comparison to 3.3 billion recorded searches in the last month of 2004.

Search engines provide two critical functions. First, they gather, index and store information about Websites in a database. Second, their algorithms analyze the information and present relevant search results in the form of links directly to Websites. Businesses seeking to increase the number of visitors to their Websites have increasingly recognized the value of being included in search results. With the prevalence of search engine use, compelling content continues to grow in importance as websites try to attract Internet users. We participate in this phenomenon as our "AnswerPages" are often viewed as relevant by search engines algorithms and rank highly in their results.

Advertising is a primary source of revenue for many Internet Websites. According to Merrill Lynch, online advertising is expected to represent 4.7% of total advertising in 2005, or $12.8 billion, an increase of 34% from 2004. There are two primary categories of Internet advertising, 'pay for performance' (or, cost per click (CPC)), and 'pay for impression' or cost per 1,000 impressions (CPM). According to Merrill Lynch, pay for performance advertising represented 43% of total online advertising in 2005.

We use both types of advertising to generate revenue on our site. In the case of performance-based advertising, the advertiser only pays when a user clicks on an ad, as opposed to viewing the ad, in impression-based advertising. One of the types of CPC advertising we utilize is keyword-targeted ads, also known as 'sponsored links'. A unique aspect of keyword-targeted CPC advertisements is that they display an advertiser's message in front of prospective consumers at a time that a user has shown he or she is interested in what the advertiser has to offer, either due to his or her search for the keyword, click on a directory link, or visit to a site that relates to such keyword.

Our Strategy

First and foremost, our goal is to establish Answers.com as the premier information/reference content site on the Internet. In executing on our plan, we intend to expand, enhance and optimize the three key elements that drive our business:

- Content
- Traffic

· Revenue

We strive to continuously license *new, rich and attributable content*, and have our content continually indexed by the Internet search engines, resulting in growth in queries directed to our Website. This ongoing expansion and enhancement of content, as well as our optimization of the content-integration and implementation, taken together, form the foundation of our 'search engine optimization' (SEO) efforts. We envision these efforts contributing to the growth in our traffic and, as a result, increased revenues.

Our revenue is primarily driven by the *query traffic* generated by Answers.com and our ability to effectively monetize that traffic. Our current traffic is primarily based on:

- *Search engines* - when our pages rank very high in the Internet search engines' algorithmic systems, Answers.com results are more likely to be accessed by users.

- *Google definition link* - our informal, non-contractual relationship pursuant to which Google currently links to our pages for definitions.

- *Answers.com direct users* - users visiting our site directly, through partnering websites, or via 1-Click Answers.

Striving to promote our brand recognition and broaden our traffic base, we will continue partnering with other Websites that would place a topic lookup bar (known as an AnswerBox) or other links on their own Web pages, thus increasing traffic from search engine or portal properties and service providers.

Our primary revenue model for monetizing Answers.com query traffic is advertising, derived from the following sources:

- Performance-based ads - advertisements that generate revenue when a user clicks on a link. These ads are also referred to as RPC: revenue-per-click, or CPC: cost-per-click to the advertiser. These ads may be textual or graphical but are more frequently represented as textual "sponsored listings".

- Impression-based ads (textual or graphical ads) - advertisements that generate revenue when displayed on a page, i.e. when *viewed* by a user, not clicked on.

Generally, we do not contract directly with advertisers, but rather, obtain advertisements through the efforts of third parties that contract with advertisers seeking to advertise in their network of web sites, including our web site (thereafter "Monetization Partners"). Monetization Partners generally compensate us by paying us a portion of the revenue they earn from advertisers for our provision of promotional space on our Website. While we obtain monetization services from various Monetization Partners, two such providers specifically, in aggregate, accounted for approximately 79% of our revenue in 2005. In 2005, Google and Shopping.com served us with ads that accounted for approximately 70% and 9%, respectively, of our total revenue.

In January 2005, we entered into an agreement with Google, known as the "Google Services Agreement", or the "GSA". Pursuant to the GSA, we display listings from its advertisers on www.answers.com. When end-users click through on these listings, they are sent directly to the relevant Google advertiser. Google pays us for these lead referrals based on a share of its charges to its advertisers. The GSA, in effect, positions Google as our most significant Monetization Partner. In December 2005, we amended the GSA, among other purposes, in order to obtain Google's permission to display image ads. In January 2006, we entered into a renewal of the GSA, thereby extending its term through January 2008 and improving our revenue-share percentage. Google is afforded the right to terminate the GSA with no advance notice with respect to breaches of specific provisions of the GSA such as a

- breach of certain prohibited actions by us including, among other things, (i) editing or modifying the order of search results, (ii) redirecting end users, producing or distributing any software which prevents the display of ads by Google, (iii) modifying, adapting or otherwise attempting to source code from Google technology, content, software and documentation or (iv) engaging in any action or practice that reflects poorly on Google or otherwise disparages or devalues Google's reputation or goodwill;
- a breach of 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;
- a breach of the confidentiality provisions of the GSA;

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

In addition to the GSA, we also benefit from the non-contractual, informal relationship, described earlier in this Business section, pursuant to which Google currently links to our web pages for definitions.

In May 2005, we entered into a transaction with Shopping.com pursuant to which our Website's end-users are provided access to Shopping.com's detailed product catalogs online, allowing them to identify, research, compare, and purchase products as part of their search for information. Under the agreement, Shopping.com pays a revenue-share based on the number of clicks performed by end-users on our Shopping.com links. The term of the agreement is for twelve months from the date of launch - June 21, 2005 - and is scheduled to automatically renew for successive 12-month terms unless either party provides written notice of termination thirty (30) days prior to the expiration of any annual term. Except for a material breach of the agreement by either party, accompanied by a failure to cure such breach, neither party is afforded an early termination right within an annual term.

The key elements of our strategy are to:

Continue strengthening the Answers.com brand. To enhance public awareness of our product, we are pursuing a brand development strategy through public relations, product features that encourage word-of-mouth sharing and active direct marketing to strategic target sectors. Our branding strategy centers on positioning us as a single source of aggregated, authoritative content on a vast, dynamic and growing collection of topics, a reliable one-stop shop for all one's research and reference needs. To date, we have received favorable reviews from numerous publications including The Wall Street Journal, Forbes and the Washington Post for our innovative approach, and are seeing a significant increase in the number of journalists citing Answers.com as a source for data in their articles. Importantly, we believe that building our brand will not only increase traffic to Answers.com directly, but will also encourage search engine visitors to select links to us when our topics appear in the search engines' results pages. The goal of these marketing efforts is to increase *direct* traffic to Answers.com as well as *search engine traffic* and traffic directed from other sources and, ultimately, to increase revenues by monetizing the traffic through the display of advertising and other revenue producing elements.

Continue developing our content library. To maintain our competitive advantage, we must continue to develop a rich base of authoritative reference information from third parties and original content. To supplement our ongoing efforts in increasing the depth and breadth of our reference information, we intend to continue entering into arrangements with content providers to display their content in response to our users' queries. We will continue to analyze site activity to determine where specific improvements will be most effective for a better user experience, improved scope and quality of our content and effective traffic monetization.

Expand our capacity to solicit paid advertising by further developing our ability to target our audience. We believe that we can help advertisers more effectively target sought after audiences and consumers. We plan to provide focused sponsored links and relevant advertisements related to a user's specific search and we will integrate additional content that will serve as an effective trigger to prompt these ads. We intend to continue investing in technology to develop, monitor and segment our user base, so that our advertiser partners may more effectively reach their target audiences, resulting in increased advertising rates. In addition, we expect to continue seeing increased revenues from relevant, paid search results.

Utilizing Monetization Partners in a manner that maximizes our Revenue. In addition to Google and Shopping.com, we utilize the services of other Monetization Partners that mostly provide us with image ads that are served on our Website. There are many companies in the market that provide Internet ad services similar to those provided by our own Monetization Partners, including Google and Shopping.com. Our strategy is to work with Monetization Partners that we believe maximize the average amount of revenue we earn per page view, or query.

Develop affiliate, co-branding and other traffic-driving partnerships and revenue-sharing arrangements with Websites and service providers. We believe that opportunities exist for partnering with other Websites and service providers that wish to enhance the user experience associated with their sites, which in turn will serve to extend our brand and increase our traffic and revenues. For example, we have entered into agreements with Comet Systems, Inc., a leader in connected, intelligent desktop software and A9.com, a search engine introduced by A9.com, Inc., a subsidiary of Amazon.com, Inc., to provide our answer-based search service within their Web products. We also deliver our service to the New York Public Library's homeworkNYC.org site and others. Finally, we also contract with third-party Websites that send traffic to Answers.com as part of a revenue-sharing arrangement, such as Mozilla's Firefox browser. We believe that these collaborations will result in an increase in traffic to Answers.com and other properties associated with our services, which in turn will increase our revenues. Financial arrangements may involve income based on, among others, development, hosting and maintenance fees paid from the partner in consideration for our services, query-dependent fees, or a split of ad revenue from ads displayed on either the partner's site or on Answers.com.

Differentiate us by developing technologically advanced products and services. Whether by developing technology in-house (*e.g.,* our Find As You Type feature, or improvements to our 1-Click Answers(TM) software) or by acquisition of third-party software (e.g., the Brainboost Answer Engine, a natural language engine, currently in the process of being integrated into the existing Answers.com services), we seek to create tools, methods and user experiences that set Answers.com apart from alternative search methods on the Web.

Sales, Marketing and Distribution

Direct to user. We attract users to our Website primarily through press coverage, trade shows, blog entries/reviews, links from other Websites (including sites that have contractually partnered with us and sites that link to Answers.com at their own initiative), and both on-line and off-line advertising. The primary methods through which we intend to reach our target audience are:

- *Public Relations.* We have contracted with public relations services and have experienced encouraging success in building our brand. We have received multiple favorable reviews from numerous publications including *USA Today, The Washington Post, The Wall Street Journal, Forbes* and *PC Magazine* and plan on expanding our public relations efforts. We seek to attain coverage in publications large and small, and also to encourage librarians, teachers, journalists and others to utilize Answers.com as a powerful research source.

- *Advertising*. We engage in Internet-based advertising and run targeted online ads. We also engage in print advertising, including posters, magazine ads, mass mailings and other forms of direct and general marketing. Finally, we work to list our 1-Click Answers(TM) software on shareware and freeware sites,

- *Word of mouth marketing***.** We have seen ongoing success in distribution when fans of our products speak of their experiences using our products with friends, colleagues, family, and others. While this trend seems to transpire on its own, we work to encourage the practice by adding features that make it a simple act to link to us or send an e-mail with information about the site. We also work with Computer User Groups, newsletter publishers and bloggers, all of whom share new technologies with constituents.

- *Search Engines.* We continuously strive to optimize AnswerPages (topic result pages) so as to increase the likelihood of search engines displaying links to our Website high in their indexed results pages when users search for information covered by our service. Our branding efforts dovetail this work, with a view to having our name recognized as a trusted source and, consequently, a better chance of selection by the users of search engines.

Education Channels. We see the educational sector as a key market that could benefit from our products, which provide:

- credible, attributed information;
- tools for citing our content in a bibliography; and
- a user experience that reduces distraction.

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We help students of various ages focus on quickly and easily finding facts and information on a vast array of subjects. Our specific target in the education market is students, parents and educators concerned with filtering and improving the quality of information that their children and students access on the Internet.

Content Providers and Hosting Services

Scope and quality of content. Answers.com's collection of over three million answers is drawn from over sixty titles from brand-name publishers, as well as original content created by Answers.com's own editorial team. Our service offers customers access to various topics, including:

- General reference: dictionary, thesaurus, encyclopedia and history;
- Language: idioms, translations, new words, acronyms, abbreviations, lexicon, idioms, grammar, sign language, quotes about and quotes by;
- Business: company snapshot descriptions, economics, finance, investment terms and currency conversions;
- Arts and culture: fine arts, literature, poets, music, instruments and study guide;
- Legal: Encyclopedia of American Law;
- Medical: medical dictionary, medical analysis and other health topics;
- Science and technology: conversions, computer encyclopedia, science, genetics, chemistry, mathematics and e-mail shorthand;
- People: famous personalities and celebrities, historical figures, musical artists, authors, columnists, royalty and sports biographies;
- Food and nutrition: nutritional values, recipes, diets and wine glossary;
- Government: US presidents, US cabinet, US congress, political parties (international), national anthems and world leaders;
- Leisure: holidays, gardening, movies, TV shows, song lyrics, Harry Potter terms, wood glossary and yoga;
- Religion: Bible, Christianity, Judaism, Islam, Hinduism and Buddhism;
- Places: countries, states, weather, maps, dialing codes, local times, currencies by country, state parks and universities;
- Military: military terms, weapons and bio-terrorism; and
- Sports: baseball hall of fame, golf, tennis, MLB, NFL, NHL and NBA.

We may change any of the topics and/or reference sources covered from time to time.

Content License Agreements. We license content provided in our products pursuant to written agreements with recognized publishers of information, including, but not limited to, Houghton Mifflin (dictionaries and glossaries), Thomson-Gale (expansive specialized encyclopedias), Columbia University Press (general concise encyclopedia), All Media Guide (musical information and popular artists bios) and Dow Jones MarketWatch (financial information). These agreements are generally for fixed periods, mostly ranging from one year and up, renewable by consent of the parties and entitle us to provide the licensed information to our end users through our product in return for a fixed amount payable over the life of the agreement either in a lump some up front, or payable over the course of a fixed schedule, either monthly, quarterly or annually. Our product also includes content we license at no cost, content publicly available from the Web and content we develop and author independently. We are increasingly looking to license and make available content that is either not or minimally available elsewhere on the Internet.

Web Hosting. We primarily outsource our Web hosting to Data Return LLC. Although we generally purchase the servers ourselves, they are operated and managed by Data Return LLC in multiple data centers that operate our proprietary software and host the tools and databases required to maintain our consolidated information sources. Our site architecture is globally load balanced among multiple data centers to provide a fully redundant system. The servers receive a user's query, analyze the query for the best possible match and return a properly formatted result. We anticipate that we have the ability to add server capacity and Internet bandwidth as required by our growth in traffic.

Our agreement with Data Return, effective November 9, 2004, will continue through the latest date that any Statement of Work issued pursuant to the agreement is in effect. Web hosting services are generally available from multiple sources and we believe that we can replace Data Return if they can no longer supply Web hosting services to us on acceptable terms.

Research and Development

We devote a substantial portion of our resources to inventing and developing new products, maintaining and enhancing existing products, expanding and improving our fundamental technology and strengthening our technological expertise. In fiscal years 2004 and 2005, we spent approximately $1,033,521 and $2,345,361 respectively, on research and development of our products. Our engineering and production teams are located in our Jerusalem, Israel development facility with additional production support provided from our office in New York City. We have developed internally, acquired or licensed the products and services we offer.

On December 6, 2005, we announced our acquisition of the entire limited liability interests of Brainboost Technology, LLC, a Delaware limited liability company. As a result of such acquisition, we took title to and possession of those certain assets owned by Brainboost, chiefly, all intellectual property rights associated with a proprietary innovation known as the 'Brainboost Answer Engine', a cutting-edge Artificial Intelligence technology targeting natural language search on the World-Wide-Web. The Brainboost technology is intended to complement the existing technology that powers Answers.com. Our goal is to integrate the Brainboost Answer Engine into Answers.com so as to have it apply to our growing content library. In parallel, we will continue to utilize the Brainboost Answers Engine as a tool to provide answers from external Web site pages. We expect to complete a fully scaled integration by the end of 2006.

In connection with the acquisition, we also entered into an employment agreement with Assaf Rozenblatt, the developer of the Brainboost Answer Engine. Since December 2005, Mr. Rozenblatt has been serving as our Director of Natural Language Research and has taken charge of the integration and further development of the Brainboost technology within our systems and proprietary products.

Competition

As providers of a unique service, we differentiate ourselves in the information-retrieval space. We face formidable competition in every aspect of our business from numerous websites, including, but not limited to, vertical content publishers, search engines, and other companies that seek to connect users with information on the Web. We operate in the market for Internet products and services, which is highly competitive and characterized by rapid change, converging technologies and increased competition from companies offering information integrated into other products and media properties. Our ability to compete depends on numerous factors, many of which are outside our control. Some of our current and potential competitors, such as WebMD, Dictionary.com, Ask.com, Microsoft, and Yahoo! have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. Therefore, they may be able to devote greater resources to the development and promotion of their services than we can to ours. Our competitors may develop products and services that are equal or superior to those of ours or that achieve greater market acceptance. Many of our competitors offer a wider range of products than we do, which could attract our consumers to competitive sites, and consequently, result in less traffic to our Websites and reduced advertising-generated revenues.

Although search engines can be viewed as competitors, they are also major providers of query traffic to Answers.com. When our AnswerPages rank *highly* or *poorly* in their algorithmic ranking systems it significantly impacts our user traffic. In this sense, these competitors also act as an engine that fuels our business.

The following areas characterize our competition:

- Online reference sites such as WebMD.com, Dictionary.com, Wikipedia, LookSmart and HighBeam Research;
- Destination portals and search engines including Google, Yahoo! and The Microsoft Network (MSN);
- Enterprise aggregation and research service providers and primary publishers such as Factiva, LexisNexis and McGraw-Hill; and
- One-click information access software providers.

Our competitive edge resides in providing our users with comprehensive information from multiple sources integrated into a single AnswerPage. Other content sites will often display information from a single source. Our unification and integration of multiple content providers is a unique feature and one of our most important advantages. We compete with online reference sites and one-click information access software providers by aggregating significant amounts of content from disparate sources to be made available to our users.

We seek to generate advertising revenues through pay-per-click or pay-per-impression text or graphical advertising or other advertising. We attract users with our service that is useful and differentiated enough to generate significant query traffic. Once people are using our service and viewing the topics it presents, we have the opportunity to furnish relevant sponsored links and other forms of advertising. Our ability to compete for advertising revenue will greatly depend on our degree of success in increasing the number of users who utilize our service and view our AnswerPages and in our ability to properly segment and sell advertisements on such pages.

Regulation of the Internet

There are still relatively few laws or regulations specifically addressed to the Internet. As a result, the manner in which existing laws and regulations should be applied to the Internet in general, and how they relate to our business in particular, is unclear in many cases. Such uncertainty arises under existing laws regulating matters, including user privacy, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, content regulation, quality of products and services and intellectual property ownership and infringement. At the present time there are no requirements that we obtain prior governmental approval in any jurisdiction for our principal products or services.

However, to resolve some of the current legal uncertainty, we expect new laws and regulations to be adopted that will be directly applicable to our activities. Any existing or new legislation applicable to Answers.com could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations, and could dampen the growth in use of the Internet in general. Several new federal laws have already been adopted that could have an impact on our business. The CAN-SPAM Act of 2003 is intended to regulate spam and create criminal penalties for unmarked sexually-oriented material and emails containing fraudulent headers. The USA Patriot Act is intended to give the government greater ability to conduct surveillance on the Internet by allowing it to intercept communications regarding terrorism and computer fraud and abuse. The Digital Millennium Copyright Act is intended to reduce the liability of online service providers for listing or linking to third-party Websites that include materials that infringe copyrights or other rights of others. The Children’s Online Protection Act (COPA), the Children’s Online Privacy Protection Act (COPPA) and the Prosecutorial Remedies and Other Tools to End Exploitation of Children Today Act of 2003, are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Likewise, other laws could have an impact on our business. For example, the Digital Millennium Copyright Act has provisions that limit, but do not eliminate, our liability for listing or linking to third-party web sites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. Under the U.K. Data Protection Act and the European Union Data Protection Directive, a failure to ensure that personal information is accurate and secure or a transfer of personal information to a country without adequate privacy protections could result in criminal or civil penalties. Such legislation may impose significant additional costs on our business or subject us to additional liabilities. We post our privacy policy and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policy, Federal Trade Commission requirements or other domestic or international privacy-related laws and regulations could result in proceedings by governmental or regulatory bodies that could potentially harm our business, results of operations and financial condition. In this regard, there are a large number of legislative proposals before the European Union, as well as before the United States Congress and various state legislative bodies regarding privacy issues related to our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could harm our business through a decrease in user registrations and revenues. These decreases could be caused by, among other possible provisions, the required use of disclaimers or other requirements before users can utilize our services.

Due to the global nature of the Web, 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 such laws, such laws may be modified and new laws may be enacted in the future. Any such developments could harm our business, operating results and financial condition. We may be subject to legal liability for our online services. We direct users to a wide variety of services that enable individuals to exchange information, conduct business and engage in various online activities on an international basis. 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 abroad. Claims may be threatened against us for aiding and abetting defamation, negligence, copyright or trademark infringement, or other theories based on the nature and content of information that we provide links to or that may be posted online.

Intellectual Property

The United States Patent and Trademark Office has granted us three United States patents. In addition, we have been granted one Israeli patent by the Israel Patent Office and have one patent pending in the United States for various aspects of our word-based referencing search and Web-wide based information retrieval technologies that power our proprietary Website, Answers.com. Furthermore, a patent application has been recently filed covering the technology underlying the Brainboost Answer Engine.

The following chart sets forth details concerning our three U.S. issued patents.

Patent	Expiration Date	Description
Method for providing Computerized word-based Referencing (U.S. Patent 6,393,443)	August 2, 2018	This patent claims a method by which our product points at text on a screen, eliminates ambiguities based on contextual analysis and displays the appropriate definitions, information entries and/or translations, as requested by the user.
Web-based information retrieval responsive to displayed word identified by a text-grabbing algorithm (U.S. Patent 6,341,306)	August 12, 2019	This patent claims a method by which our application displays promotional data in response to a look-up query of a word displayed in the body of a text.
Web-based information retrieval (U.S. Patent 6,519,631)	August 12, 2019	The patent claims a method by which a user can use the keyboard and mouse in combination to mark a word on a computer screen, disambiguate such word based on context indicators in the document and retrieve information from a remote server relating to the meaning of the word marked.

The status of any patent involves complex legal and factual questions, and the breadth of claims allowed is uncertain. Accordingly, we cannot assure you that any patent application filed by us will result in a patent being issued, or that our patents, and any patents that may be issued in the future, will afford adequate protection against competitors with similar technology. We similarly face the risk that any patents issued to us might be infringed or designed around by others.

While we rely on patent and other intellectual property laws to protect our technology, we also believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements and reliable product maintenance are essential to establishing and maintaining our market position. We enter into confidentiality agreements, as appropriate, with our employees, consultants and customers, and otherwise seek to control access to, and distribution of, our proprietary information. These measures, however, afford only limited protection. There is no guarantee that these safeguards will protect our technology and other valuable competitive information from being used by competitors.

From time to time in the ordinary course of business we have been, and we expect to continue to be, subject to claims of alleged infringement of the trademarks and other intellectual property rights of third parties. These claims and any resultant litigation, should it occur, could subject us to significant liability for damages. In addition, even if we prevail, litigation could be time-consuming and expensive to defend, and could result in the diversion of our time and attention. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims unless we are able to enter into agreements with the third parties making these claims.

Employees

At December 31, 2005, we had 48 employees, of which 38 are full-time employees and 10 are part-time employees. As of such date, 41 employees were located in our office in Jerusalem, Israel and 7 employees were based in our New York City office. None of our employees are subject to a collective bargaining agreement, and we consider our employee relations to be satisfactory.

Operations in Israel

The Law for the Encouragement of Capital Investments, 5719 - 1959, provides that upon application to the Investment Center of the Ministry of Industry, Commerce and Employment of the State of Israel ("Investment Center"), a proposed capital investment in eligible capital expenditures may be designated as an Approved Enterprise. Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, such as the equipment to be purchased and utilized under the program. The tax benefits derived from any certificate of approval relate only to taxable income derived from growth in manufacturing revenues attributable to the specific Approved Enterprise. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates.

Taxable income of a company derived from an Approved Enterprise is subject to tax at the maximum rate of 25%, rather than the current rate of 34%, for the benefit period. This period is ordinarily 7 years beginning with the year in which the Approved Enterprise first generates taxable income, and is limited to 12 years from when production begins or 14 years from the date of approval, whichever is earlier. A company owning an Approved Enterprise may elect to receive an alternative package of benefits, which allows the company to receive tax exemptions rather than grants. Under the alternative package, the company's undistributed income derived from an Approved Enterprise will be exempt from tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location of the Approved Enterprise within Israel, and the company will be eligible for the tax benefits under the law for the remainder of the benefit period.

The Investment Center bases its decision of whether to approve or reject a company's application for designation as an Approved Enterprise on criteria described in the law and related regulations, the then prevailing policy of the Investment Center and the specific objectives and financial criteria of the applicant. Therefore, a company cannot be certain in advance whether its application will be approved. In addition, the benefits available to an approved enterprise are conditional upon compliance with the conditions stipulated in the law and related regulations and the criteria described in the specific certificate of approval. If a company violates these conditions, in whole or in part, it would be required to refund the amount of tax benefits and any grants received plus an amount linked to the Israeli consumer price index and interest.

Our Israeli subsidiary, GuruNet Israel Ltd., currently has two capital investment programs, both of which were granted Approved Enterprise status. Income arising from our Approved Enterprise is tax-free under the alternative package of benefits described above and entitled to reduced tax rates based on the level of foreign ownership for a period of 10 years from the first year in which our Israeli subsidiary generates taxable income from such Approved Enterprise, but not later than certain specified periods. We have begun to generate taxable income for purposes of this law and we have utilized these tax benefits beginning 2000. The law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program.

On March 30, 2005, the Israeli legislature approved a reform of the Law for the Encouragement of Capital Investments, 5719 - 1959, which permits companies that meet the criteria of an alternative benefits track of tax benefits to receive the benefits without prior approval and with no requirement to file reports with the Investment

Center. Under the reform, approval of a candidate for the benefits will take place via the Income Tax Authorities as part of the regular tax audits. Certain conditions were set in order to receive the benefits. The reform does not retroactively apply for investment programs having an approved enterprise approval certificate from the Investment Center issued prior to December 31, 2004 and should not impact an existing approved enterprise, which received written approval. The reform applies to a new Approved Enterprise and for an approved enterprise expansion for which the first year of benefits may be as early as 2004.

Available Information

We make available free of charge through our Website, our Securities and Exchange Commission, or SEC, filings, including our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

We were incorporated as a Texas corporation in December 1998, and reorganized as a Delaware corporation in April 1999. In October 2005, we changed our name from GuruNet Corporation to Answers Corporation. Our principal executive office is located at Jerusalem Technology Park, the Tower, Jerusalem 91481 Israel, and our telephone number is +972 649-5000. Our U.S. office is located at 237 West 35th Street, Suite 1101, New York, NY 10001 and our telephone number at this location is 646-502-4777. Our corporate Website is located at http://www.answers.com. Information contained in our Website is not incorporated by reference into this annual report.

Item 2. Description of Property

Our corporate headquarters and research and development facility is located in the entire 7th floor of the Tower, Jerusalem Technology Park, P.O. Box 48253, Jerusalem 91481, Israel in approximately 1,000 square meters of space occupied under a 5-year lease with a monthly rental rate of approximately $11,000 during the first year of its term and approximately $15,000 for the last 4 years of its term. The lease will expire in July 2010, with an option to extend the term for an additional 5 years.

Our New York office, which serves as our U.S. headquarters for investor relations, sales, marketing and business development operations, is located at 237 West 35th Street, Suite 1101, New York, NY 10001 and occupies a portion of the 11th floor of this location. The lease for this premises commenced in May 2005 and will expire in June 2010 and according to its terms the average base rent for the offices during the first year is approximately $66,000 per annum, gradually increasing to approximately $74,000 per annum for the final year.

Item 3. Legal Proceedings

Steven Tover

On July 14, 2005, Mr. Steven Tover ("Tover"), former Vice President, Business Development & Sales of the Company, filed a statement of claim with the Regional Labor Court in Jerusalem, Israel (the "Court"), against (i) us, (ii) our Israeli subsidiary, GuruNet Israel Ltd., (iii) Mr. Robert Rosenschein (our CEO and Chairman of the Board), and (iv) Mr. Steven Steinberg (our CFO) in the amount of approximately US$50,000, for deferred salary, severance pay and allegedly unpaid commissions. Tover's action further claimed that he is entitled to certain additional and future commissions pursuant to various business transactions and to exercise stock options granted to him, which, according to us, have expired at the close of fiscal year 2004. The stock options discussed in Tover's claim consist of 43,441 options to purchase such number of our shares of common stock, with an exercise price of $2.76 per share.

On September 28, 2005 the Court accepted the named defendants' motion and ordered Tover to re-file his statement of claim, for lack of facts substantiating his claims and for lack of clarity in describing the damages sought. On December 6, 2005 Tover filed his amended statement of claim, in which he raised the amount of damages sought to $70,000, in addition to aforementioned declaratory redress pertaining to future commissions and stock options. The named defendants completely reject the validity of Tover's claims and on February 1, 2006, filed a joint statement of defense together with a motion to dismiss the amended statement of claim on the grounds that Tover did not pay the full Court fees and for lack of cause.

Following a pre-trial hearing that took place on March 5, 2006, the Court recommended that the litigants explore the possibility of resolving the dispute through mediation. We estimate that the probability of Tover prevailing in the Claim is low, although we cannot guarantee how any court will rule on a given matter.

Babylon

On March 8, 2006, we submitted a statement of claim with the Tel-Aviv District Court against Babylon Ltd., for infringement of Israel Patent Number 121,457. The remedies that we seek are damages in the sum of NIS 1,000,000 (approximately $210,000), an accounting and an injunction. We estimate that the chances of success are reasonable, although we cannot guarantee how any court will rule on a given matter.

Item 4. Submission of Matters to a Vote of Security Holders

We held a Special Stockholders' Meeting on October 11th, 2005 whereby stockholders were required to vote on one proposal, namely, to amend our Amended and Restated Certificate of Incorporation to change our name from GuruNet Corporation to Answers Corporation. The corporate name change was approved at such meeting.

The results of the vote are summarized in the table below:

Proposal	***Votes For***	***Votes Against***	***Votes Abstain***	***% Votes For***
#1	***6,562,654***	***17,049***	***1,899***	***93.22****

* Based on an aggregate of 7,040,152 shares of common stock issued and outstanding on the date of the stockholders' meeting.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Market Information

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

The prices per share reflected in the table below represent, for the periods indicated, the range of high and low closing sale prices for our common stock as reported by the American Stock Exchange from October 13, 2004 through August 1, 2005; and the range of high and low closing sale prices for our common stock as quoted on the Nasdaq National Market from August 2, 2005 through December 31, 2005.

	High	Low
Year ended December 31, 2004		
First quarter	N/A	N/A
Second quarter	N/A	N/A
Third quarter	N/A	N/A
Fourth quarter (From October 13, 2004)	$ 9.43	$ 4.40
Year ended December 31, 2005		
First quarter	$ 28.5	$ 7.56

Second quarter	$ 23.20	$ 10.55
Third quarter	$ 16.30	$ 10.65
Fourth quarter	$ 13.50	$ 8.77

The closing sale price of our common stock as reported by the Nasdaq National Market on March 15, 2006 was $10.46 per share.

Number of Stockholders

As of March 15, 2006, there were 63 holders of record of our common stock.

Dividend Policy

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

Recent Sales of Unregistered Securities

Warrant Reload

On February 4, 2005, we entered into an agreement with certain holders of the bridge warrants, under which the holders of the bridge warrants exercised an aggregate of 1,871,783 bridge warrants at the exercise price of $7.20 per share (with the exception of Vertical Ventures, LLC, which held a warrant exercisable at $3.75 per share) for aggregate proceeds to us of approximately $12,220,000, net of fees and expenses. As an incentive to the holders to exercise their respective bridge warrants, we issued to the holders 1,029,488 new warrants to purchase such number of shares of common stock (equal to 55% of the number of shares of common stock underlying their respective bridge warrants) at an exercise price of $17.27 per share. The warrants are presently exercisable and expire on February 4, 2010.

Underwriter Purchase Options

Upon completion of our IPO, we sold to our underwriters, Maxim Group LLC and EarlyBirdCapital, Inc., for a total purchase price of $100.00, an option entitling the underwriters or their assigns to purchase 117,500 shares of our common stock (allocated in equal shares of 58,750 to each of the underwriters) at a strike price of $6.25 per share.

In October 2005, Maxim Partners LLC, Maxim Group LLC’s assignee, exercised its purchase option in its entirety and was issued an aggregate of 58,750 shares of common stock in consideration for approximately $367,000.

In November 2005, EarlyBirdCapital, Inc. exercised its purchase option in its entirety, on a cashless basis, and was issued an aggregate of 27,067 shares of common stock.

Common Stock Issuance

On December 1, 2005 (“Closing Date”) we entered into a Purchase Agreement, pursuant to which we acquired the entire limited liability interests of Brainboost Technology, LLC, a Delaware limited liability company, from Brainboost Partnership, for an aggregate of $4,000,000 in cash and 439,000 shares of common stock of the Company. Said stock consideration is subject to a lock-up agreement for a period of 12 months from the Closing Date, with 1/12 to be released from lock-up each 30 day period during the first 6 months, an additional 25% to be released from lock-up 9 months after the Closing Date and the remaining 25% to be released 1 year after the Closing Date.

Brainboost Partnership is entitled to certain price protection rights, whereby a drop of our stock price below a certain threshold, within a certain timeframe, would trigger its right to receive certain compensation for the reduction in the stock consideration’s value. The price protection is also subject to cancellation at the cumulative occurrence of certain conditions relating to the market price of the stock consideration, the registration of the stock consideration, and other criteria including termination, under certain circumstances, of a principal of Brainboost Partnership from employment with the Company prior to the one-year anniversary of the Closing Date.

With respect to each of the issuances described in the foregoing section, Recent Sales of Unregistered Securities, the securities were issued to investors in reliance upon the exemption from the registration requirements of the Securities Act, as set forth in Section 4(2) under the Securities Act and Rule 506 of Regulation D promulgated thereunder relative to sales by an issuer not involving any public offering. All purchasers of shares of the Registrant’s bridge notes and warrants described above represented to the Registrant in connection with their purchase that they were accredited investors and were acquiring the shares for investment and not distribution, that they could bear the risks of the investment and could hold the securities for an indefinite period of time. The purchasers received written disclosures that the securities had not been registered under the Securities Act and that any resale must be made pursuant to a registration or an available exemption from such registration.

Outstanding Warrants

As of March 15, 2006, there were outstanding warrants to purchase 1,157,763 shares of our common stock.

Purchases of Equity Securities

We have not purchased any equity securities during the three-month period ending December 31, 2005.

Item 6. Management's Discussion and Analysis or Plan of Operation

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this filing. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Risk Factors" and elsewhere in this filing, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We own, operate and provide an online answer-based information-retrieval service that offers Internet users conveniently formatted snapshot, multi-faceted definitions and explanations, integrated into a single consolidated browser view. Our flagship site, Answers.com, is a leading aggregator of information and reference content, on more than 3 million topics, covering general reference, business, arts and culture, legal, medical, science and technology, people, places, music and many others. Our topic library contains over 60 titles from brand-name publishers. Additionally, we offer "1-Click Answers" - a software tool that facilitates more efficient access to Answers.com by allowing users working in any application such as e-mail, spreadsheet or word processing to click on a word or phrase within a document and access Answers.com's online library via a pop-up window.

On January 3, 2005, we announced the release of Answers.com, a website that had been launched in August 2004 in beta version. The launch of the Website represented the company's gravitation to a new ad-based revenue model, as opposed to our previous subscription-based model. Prior to January 2005, we sold subscriptions to our answer engine product, GuruNet. Prior to December 2003, we sold lifetime subscriptions to GuruNet, generally for $40. In December 2003, we decided to alter our pricing model and moved to an annual subscription model, generally, $30 per year. A desire to grow revenues led to our current implementation, in January 2005, of a free-to-customer product, Answers.com and "1-Click Answers" software. Since the launch of Answers.com in January 2005, we have ceased offering new subscriptions to GuruNet.

In evaluating our 2005 operating results as compared to 2004, please bear in mind the change in our business model that transpired in January 2005.

Answers.com Traffic, Answers Services and Monetization

Our revenue is primarily driven by the query traffic generated by Answers.com and our ability to effectively monetize that traffic. Our current traffic is primarily based on: (i) Search engines: when our pages rank very high in the search engines' algorithmic systems, Answers.com results are more likely to be accessed by users; (ii) Google's definition link: our informal, non-contractual relationship, in which Google links to our pages for definitions; and (iii) Answers.com direct users - users visiting our site either directly, through partnering websites, or via 1-Click Answers. Our primary revenue model for Answers.com traffic is based on advertising. Most of our ad revenue is earned from performance-based ads, whereby we earn revenue based on the number of clicks associated with such ads (e.g., sponsored links), and paid-per-impression advertising, whereby revenues are derived from the display of ads (e.g., graphic ads). Generally, we do not contract directly with advertisers, but rather, obtain advertisements through the efforts of third parties that contract with advertisers seeking to advertise in their network of web sites, including our web site. We refer to such third parties as "Monetization Partners". Monetization Partners generally compensate us by paying us a portion of the revenue they earn from advertisers for our provision of promotional space on our web site.

The more users to whom we deliver answer-based search services results, the more revenues we will potentially earn. Thus, we approach third-party sites offering to incentivize them for the right to deliver our services to their users. The fees we pay to such partners are often calculated as a percentage of the revenue we earn by delivering services to their users. We also earn revenues from partners that pay us for providing our answer-based search services to their users.

These arrangements are based on various formulas, including a percentage of the revenues they earn by delivering our services to their users, fees based on the number of user queries and fixed periodic fees.

Recent Developments

On December 1, 2005, we acquired Brainboost Technology, LLC, creators of the Brainboost Answer Engine ("BAE"), for $4 million in cash and 439,000 shares of restricted stock, including certain price protection rights. In connection with the transaction, the developer of the BAE joined our company as Director of Natural Language Research.

The BAE delivers answers to end-user generated natural language questions by identifying pages on the web that contain sentences or phrases that appear to answer such specific questions. We are currently in the process of integrating the BAE- artificial intelligence technology enabling natural language search on the Web - into our own product line. We also plan that in cases where Answers.com contains the information that answers an end-user's question, the results will be extracted by the BAE from the Company's internal content-base.