

# HSW INTERNATIONAL, INC.

## FORM 10-Q (Quarterly Report)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D. C. 20549

**FORM 10-Q**

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2010**

**OR**

- 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 001-33720**

**HSW INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

**33-1135689**  
(I.R.S. Employer  
Identification Number)

**3280 Peachtree Road, Suite 600**  
**Atlanta, Georgia 30305**  
(Address of principal executive offices, including zip code)

**404-364-5823**  
(Registrant's telephone number, including area code)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

At May 14, 2010, the number of common shares outstanding was 5,368,355.

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**PART I – FINANCIAL INFORMATION**

**Item 1 . Condensed Consolidated Financial Statements**

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**  
 (expressed in U.S. Dollars)

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 7,496,894	\$ 8,724,546
Trade accounts receivable, net	14,545	36,377
Trade accounts receivable due from affiliates	417,758	469,185
Prepaid expenses and other current assets	668,183	787,972
Total current assets	8,597,380	10,018,080
Property and equipment, net	419,533	490,306
Investment in unconsolidated affiliate	4,327,811	4,405,304
Licenses to operate in China	969,560	969,560
Intangibles, net	16,429	16,429
Total assets	<u>\$ 14,330,713</u>	<u>\$ 15,899,679</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 367,717	\$ 410,966
Advances from shareholder	85,296	85,296
Accrued expenses and other current liabilities	612,110	744,487
Total current liabilities	1,065,123	1,240,749
Deferred tax liability	242,390	242,390
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$.001 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, \$.001 par value; 20,000,000 shares authorized, 5,369,785 issued and outstanding at March 31, 2010 and December 31, 2009, (a)	5,369	5,369
Additional paid-in-capital	100,474,340	100,435,372
Accumulated other comprehensive income	34,565	40,100
Accumulated deficit	(87,491,074)	(86,064,301)
Total stockholders' equity	13,023,200	14,416,540
Total liabilities and stockholders' equity	<u>\$ 14,330,713</u>	<u>\$ 15,899,679</u>

(a) All outstanding share amounts reflect HSWI's February 2010 10-for-1 reverse stock split. See Note 1, "Description of Business".

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

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
(expressed in U.S. Dollars)

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating revenue</b>		
Web platform services from affiliates	\$ 1,346,630	\$ —
Social media	—	79,607
Digital online publishing	27,481	46,723
Total revenue	1,374,111	126,330
<b>Cost of services</b>	1,149,304	388,528
<b>Gross margin</b>	224,807	(262,198)
<b>Operating expenses</b>		
Selling, general and administrative (including stock-based compensation expense of \$38,968 and \$704,706 for the three months ended March 31, 2010 and 2009, respectively)	1,503,975	3,033,631
Depreciation and amortization	75,382	115,788
Total operating expenses	1,579,357	3,149,419
<b>Operating loss</b>	(1,354,550)	(3,411,617)
<b>Other income</b>		
Interest income	5,271	15,492
Other income	—	160,000
Total other income	5,271	175,492
<b>Loss from operations before income taxes and equity in loss of equity method investment</b>	(1,349,279)	(3,236,125)
Equity in loss of equity-method investment, net of taxes	(77,494)	—
<b>Net loss</b>	\$ (1,426,773)	\$ (3,236,125)
<b>Net loss per share (a)</b>		
Net loss per share, basic and diluted	\$ (0.27)	\$ (0.60)
<b>Basic and diluted weighted average shares outstanding (a)</b>	5,369,829	5,361,486

(a) All outstanding share amounts reflect HSWI's February 2010 10-for-1 reverse stock split. See Note 1, "Description of Business".

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

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(expressed in U.S. Dollars)

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net cash used in operating activities	\$ (1,217,512)	\$ (1,943,055)
<b>Cash used in operating activities</b>	<b>(1,217,512)</b>	<b>(1,943,055)</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(4,608)	(28,417)
<b>Cash used in investing activities</b>	<b>(4,608)</b>	<b>(28,417)</b>
<b>Cash flows from financing activities:</b>		
<b>Cash provided by financing activities</b>	<b>—</b>	<b>—</b>
<b>Net change in cash and cash equivalents:</b>	(1,222,120)	(1,971,472)
Impact of foreign currency translation on cash	(5,532)	3,414
Cash and cash equivalents at beginning of period	8,724,546	18,020,159
<b>Cash and cash equivalents at end of period</b>	<b>\$ 7,496,894</b>	<b>\$ 16,052,101</b>

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

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. DESCRIPTION OF BUSINESS**

**Overview**

HSW International, Inc. ("HSWI" or the "Company") is an online publishing company that develops and operates Internet businesses focused on providing consumers in the world's digital economies with locally relevant, high quality information, and provides web platform services that support traditional web publishing combined with social media. Our international websites published under the HowStuffWorks brand provide readers in China and Brazil with thousands of articles about how the world around them works, serving as destinations for credible, easy-to-understand reference information. HSW International is the exclusive licensee in China and Brazil for the digital publication of translated content from Discovery Communications, Inc.'s HowStuffWorks.com, and in China for the digital publication of translated content from World Book, Inc. ("World Book"), publisher of World Book Encyclopedia. Our co-founding and continuing development of Sharecare, Inc. ("Sharecare") will create a highly searchable social Q&A healthcare platform organizing and answering the questions of health, in partnership with Harpo Productions, Sony Pictures Television, Discovery Communications, Jeff Arnold, and Dr. Mehmet Oz. We generate revenue primarily through the sale of online advertising on our websites and through service fees charged to clients for web platform development and operation services. We were incorporated in Delaware in March 2006. Our headquarters are located at 3280 Peachtree Road, Suite 600, Atlanta, Georgia 30305.

*Liquidity Considerations*

The global financial downturn had a negative effect on the demand for advertising in general, including online advertising. Economic uncertainty has had and might continue to have a direct impact on our revenue as orders for online advertising internationally have declined and our typical advertiser is spending less per order than in the prior year. Also, our businesses in Brazil and China, which we launched within the past three years, are still in a growth stage as we continue to focus on building towards a critical mass of traffic volume. In consideration of projected market conditions and near-term revenue expectations, we implemented cost reductions in 2009 to reduce headcount and better align our costs with our 2009 strategic initiatives. We consistently monitor our cash position to make adjustments as we believe necessary to maintain our operational objectives of funding ongoing operations and continuing to make technological investments in our websites and their respective brands.

We expect to continue to invest in expanding and gaining market share for our internet platforms in Brazil and China, including additional investments to create or acquire content. We currently do not have any material commitments for capital expenditures. Our anticipated investments will be made in the respective markets based on our success and anticipated market conditions and trends. We expect that most of these investments will be paid or under commitment before we begin to realize significant revenues. Additionally, in the normal course of business, we continue to explore various business initiatives that may lead to additional sources of revenue and growth. We believe that our current cash balance and the combination of our expected cash generated from future operations combined with recently implemented cost reduction measures will provide sufficient cash to fund operations for at least twelve months. However, if cash on hand and generated from operations is insufficient to satisfy our working capital and capital expenditure requirements, we might implement further cost reduction strategies, or attempt to sell additional equity or obtain financing to fund further development and attain profitability. There is no assurance that such financing will be available or that we will be able to complete financing on satisfactory terms, if at all.

We expect that our recently announced service agreement with Sharecare will continue to generate revenues for our company. However, as Sharecare is a newly formed entity and the service agreement expires in June 2010, there can be no assurance that the amounts generated will be sufficient to cover our liquidity needs for the long-term.

*Reverse Split*

On February 3, 2010, the Board of Directors authorized a 10-for-1 reverse split of its authorized, issued and outstanding common shares, effective for shareholders of record on February 10, 2010 (the "Reverse Split"). The board of directors believed that the Reverse Split was appropriate in order to maintain continued listing of our common stock on the NASDAQ Global Market. NASDAQ requires that if the closing bid price of shares of our common stock is less than \$1.00 per share for 30 consecutive trading days, the closing bid price must be \$1.00 per share or higher for a minimum of 10 consecutive trading days during the 180 calendar days following notification by NASDAQ. Otherwise, NASDAQ would have begun procedures to delist our common stock from trading on the NASDAQ Global Market. The Reverse Split successfully resulted in our common stock achieving the level necessary to satisfy the \$1.00 minimum bid continued listing requirement, and NASDAQ notified HSWI that we regained compliance with continued listing standards. However, we cannot predict whether the market price of our common stock will remain

equal to or in excess of \$1.00 because the market price is determined by investors' trades and can be affected by other factors in addition to the number of shares outstanding, such as our future performance and the overall performance of the stock markets.

The Reverse Split became effective upon filing a Certificate of Amendment to our Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware on February 16, 2010. Immediately after the stock split, HSW International had approximately 5,369,785 common shares outstanding. Immediately prior to the Reverse Split the Company had approximately 53,698,292 shares of common stock outstanding. Subsequent to the Reverse Split, the par value per share of the common stock remained unchanged at \$0.001 per share. As a result, on the effective date of the Reverse Split, the stated capital on the Company's consolidated balance sheet attributable to common stock was reduced and the additional paid-in capital account was increased by the amount by which the stated capital was reduced. Per share net income or loss will be increased because there will be fewer shares of the Company's common stock outstanding. The Company does not anticipate that there will be any impact to the results of our operations, including changes to the amount of stock-based compensation expense to be recognized in any period, as a result of the Reverse Split. Additionally, employee and director share and option grants as well as associated exercise prices were adjusted in the same proportion as the Reverse Split.

In March 2010, the Company received a notice from The NASDAQ Stock Market indicating that it no longer complied with the requirements of NASDAQ Marketplace Rule 5450(b)(1)(C) for continued listing on The NASDAQ Global Market. The rule requires that the publicly held shares of the Company, which is calculated by subtracting all shares held by officers, directors or beneficial owners of 10% or more of the total shares outstanding, maintain a minimum market value of \$5,000,000. The Company has 180 calendar days, or until September 27, 2010, in which to regain compliance with the listing requirement by having the market value of its publicly held shares close at \$5,000,000 or more for ten consecutive business days. As of May 14, 2010, our market value of publicly held shares outstanding was approximately \$4.8 million. If the Company does not regain compliance prior to the expiration of the 180-day grace period, NASDAQ will provide written notice that the Company's common stock is subject to delisting. Alternatively, the Company may transfer its listing to The NASDAQ Capital Market, provided that it satisfies the requirements for continued listing on The NASDAQ Capital Market. If the bid price for our shares of common stock falls below \$1.00 again, if the market value of our publicly held shares remains below \$5,000,000, or if we do not meet other continued listing requirements of NASDAQ, our common stock may be delisted.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Principles of Consolidation**

The consolidated financial statements from continuing operations include the accounts of HSWI and our subsidiaries (1) HSW Brasil - Tecnologia e Informação Ltda., (2) HSW (HK) Inc. Limited, (3) Bonet (Beijing) Technology Limited Liability Company, (4) BoWenWang Technology (Beijing) Limited Liability Company. The equity of certain of these entities is partially or fully held by citizens of the country of incorporation to comply with local laws and regulations.

Equity investments in which we exercise significant influence but do not control and for which we are not the primary beneficiary are accounted for using the equity method. In the event of a change in ownership or degree of influence, any gain or loss resulting from an investee share issuance will be recorded in earnings. Investments in which we are not able to exercise significant influence over the investee are accounted for under the cost method. Controlling interest is determined by majority ownership interest and the ability to unilaterally direct or cause the direction of management and policies of an entity after considering any third-party participatory rights. The Company applies the guidelines set forth in Accounting Standards Codification ("ASC") 810 in evaluating whether it has interests in variable interest entity, or VIEs, and in determining whether to consolidate any such entities. All significant inter-company accounts and transactions between consolidated companies have been eliminated in consolidation.

We use qualitative analysis to determine whether or not we are the primary beneficiary of a VIE. We consider the rights and obligations conveyed by our implicit and explicit variable interest in each VIE and the relationship of these with the variable interests held by other parties to determine whether our variable interests will absorb a majority of a VIE's expected losses, receive a majority of its expected residual returns, or both. If we determine that our variable interests will absorb a majority of the VIE's expected losses, receive a majority of its expected residual returns, or both we consolidate the VIE as the primary beneficiary, and if not, we do not consolidate.

We have determined that Bonet (Beijing) Technology Limited Liability Company is a variable interest entity as defined in the ASC 810, "Consolidation." We are the primary beneficiary of this entity and accordingly, we have consolidated the results of this entity along with our other subsidiaries. We have determined that our interest in Sharecare is not a VIE. Additionally, we are not the primary beneficiary of this entity. Accordingly, we use the equity method to account for our investment in Sharecare.

The accompanying interim condensed consolidated financial statements for the three months ended March 31, 2010, and 2009 are unaudited. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America for financial information have been omitted pursuant to the rules and regulations of Article 10 of SEC Regulation S-X. In the opinion of management, these condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to state fairly the financial position, results of operations and cash flows for the periods indicated. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Operating results for the three months ended March 31, 2010, are not necessarily indicative of results that may be expected for any other future interim period or for the year ending December 31, 2010. You should read the unaudited condensed consolidated financial statements in conjunction with Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as with HSWI's consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

### **Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board, or FASB, issued authoritative guidance that expands the required disclosures about fair value measurements. This guidance provides for new disclosures requiring the Company to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring the Company to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In November 2009, the FASB issued authoritative guidance that incorporates Amendments to FASB Interpretation No. 46(R) into the Accounting Standards Codification. The new requirements are effective as of the beginning of an enterprise's first fiscal year beginning after November 15, 2009 (January 1, 2010, for us). The adoption of this guidance did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued authoritative guidance that revises the approach to determining the primary beneficiary of a variable interest entity, or VIE, to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. This guidance is effective for fiscal years beginning after November 15, 2009 (January 1, 2010, for us), for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this guidance did not have a material impact on our consolidated financial statements.

### **3. TRANSACTIONS WITH SHARECARE**

On October 30, 2009, the Company entered into and effectuated a series of transactions with Sharecare, Inc. (the "Sharecare Transactions"), which was established as a venture among: Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of "The Dr. Oz Show"; HARPO Productions, producer of "The Oprah Winfrey Show"; Discovery Communications, the world's largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications' Chief of Global Digital Strategy; and HSWI. Sharecare was created to build a web-based platform that simplifies the search for health and wellness information by organizing a vast array of the questions of health and providing multiple answers from experts, organizations, publishers, and caregivers representing various points of view.

As a result of these transactions, the Company:

- Entered into a subscription agreement for the purchase of 125,000 shares of common stock of Sharecare, representing 20% ownership of Sharecare at the time of purchase;
- Sold substantially all of the assets of its DailyStrength subsidiary to Sharecare;
- Agreed to provide management and website development services to Sharecare; and
- Received a limited license to use the Sharecare web platform for HSWI's own businesses.

Additionally, the Company issued a promissory note for \$1 million to Sharecare, all of which has been satisfied by services the Company provided to Sharecare during 2009. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength.

We account for our equity interest in Sharecare under the equity method of accounting, as we exercise significant influence over Sharecare due to our seat on the Sharecare board of directors and also due to our involvement in the development of the Sharecare website. Under this method, we record our proportionate share of Sharecare's net income or loss based on the financial results of Sharecare. As of March 31, 2010, HSWI owned approximately 18% of the outstanding common stock of Sharecare.

The difference between the carrying amount of our investment balance in Sharecare and our proportionate share of Sharecare's underlying net assets was approximately \$2.7 million as of March 31, 2010. The difference is characterized as goodwill and is subject to review in accordance with ASC 323 for an other than temporary decline in value. We eliminated our portion of intercompany profit included in Sharecare's earnings as of March 31, 2010, which was approximately \$40,000. Our investment balance in Sharecare reflects the intercompany profit elimination.

As a result of the issuance of common stock by Sharecare to a third party investor (Sony) in January 2010, we recorded a change in interest gain of \$211,250, which is included in "Equity in loss of equity-method investment, net of tax" on the statement of operations.

For the three months ended March 31, 2010, the Company recorded an adjustment to non-cash equity in loss of equity-method investment of approximately \$0.1 million to correct our investment in unconsolidated affiliate balance. The company determined this out-of-period adjustment is not material to the condensed consolidated financial statements for the three month period ended March 31, 2010, forecasted annual results for the fiscal 2010 or any prior period financial statements.

During the quarter ended March 31, 2010, HSWI recorded revenue of approximately \$1.3 million related to services performed under the Sharecare services agreement.

The following table shows select financial data including HSWI's proportional share of net loss in Sharecare as reported under the equity method:

	<b>For the Period Ended March 31, 2010</b>
Revenues	\$ 474,104
Gross profit	274,458
Loss from operations	(1,995,897)
Net loss	(1,986,211)
Proportional share of investee loss	\$ (358,256)

#### 4. SEGMENTS

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Because of our integrated business structure, operating costs included in one segment can benefit other segments, and therefore these segments are not designed to measure operating income or loss directly related to the products included in each segment. Reconciling amounts include adjustments to conform with U.S. GAAP and corporate-level activity not specifically attributed to a segment. Corporate expenses include, among other items: corporate-level general and administration costs, technology costs and on-going maintenance charges; share-based compensation expense related to stock and stock option grants; depreciation and amortization expense; interest expense and income; and charges related to acquired content not yet published on our sites.

The Company reported two operating segments for the first half of 2009: (1) social media; and (2) digital online publishing. Our social media segment was comprised of our DailyStrength operations, which generated revenues from the advertisers based primarily in the United States. We sold substantially all of the assets of the social media segment to a related party, Sharecare, on October 30, 2009. Subsequently, we no longer recognize activity within that segment. Our digital online publishing segment consists of our websites in Brazil and China and generates revenues from advertisers based in the respective countries.

In October 2009 the Company entered into a Letter Agreement for services with Sharecare pursuant to which the Company agreed to perform services related to the design, development, hosting and related services necessary to launch and operate the Sharecare websites through our direct activities and management of third party vendors. The operating results for services performed under the Sharecare services agreement are included in the web platform services segment.

Revenue, operating loss and total assets regarding reportable segments are presented in the following tables:

	<b>Digital Online Publishing</b>	<b>Social Media</b>	<b>Web Platform Services</b>	<b>Corporate</b>	<b>Total</b>
<b>Three Months Ended March 31, 2010</b>					
Revenue	\$ 27,481	—	\$ 1,346,630	\$ —	\$ 1,374,111
Operating (loss) income	(322,665)	—	225,000	(1,256,885)	(1,354,550)
Interest income	—	—	—	5,271	5,271
Other income	—	—	—	(77,494)	(77,494)
Income tax benefit	—	—	—	—	—
(Loss)income from operations	<u>\$ (322,665)</u>	<u>—</u>	<u>\$ 225,000</u>	<u>\$ (1,329,108)</u>	<u>\$ (1,426,773)</u>

	<b>Digital Online Publishing</b>	<b>Social Media</b>	<b>Web Platform Services</b>	<b>Corporate</b>	<b>Total</b>
<b>Three Months Ended March 31, 2009</b>					
Revenue	\$ 46,723	\$ 79,607	—	\$ —	\$ 126,330
Other income	—	160,000	—	—	160,000
Operating (loss) income	(473,328)	(320,652)	—	(2,617,637)	(3,411,617)
Interest income	—	—	—	15,492	15,492
Income tax benefit	—	—	—	—	—
(Loss)income from operations	<u>\$ (473,328)</u>	<u>\$ (160,652)</u>	<u>—</u>	<u>\$ (2,602,145)</u>	<u>\$ (3,236,125)</u>

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Total assets:</b>		
Web platform services	\$ 417,758	\$ 469,185
Social media	—	19,751
Digital online publishing	520,931	557,648
Business segments	938,689	1,046,584
Corporate	13,392,024	14,853,095
Total assets	<u>\$ 14,330,713</u>	<u>\$ 15,899,679</u>

## 5. STOCKHOLDERS' EQUITY

### Common Stock

In February 2010, we effected a 10-for-1 reverse stock split of HSWI's common stock (the "Reverse Split"). As a result of the Reverse Split, each ten shares of HSWI's common stock issued and outstanding at 5:00 p.m. on February 10, 2010, were automatically combined into one share of common stock. Shareholders received cash in lieu of the issuance of any fractional shares

Each share of our common stock entitles its holder to one voting right.

### Stock-Based Compensation

Under the 2006 Equity Incentive Plan adopted April 13, 2006 (the "Plan"), HSWI authorized 800,000 shares for grant as part of a long term incentive plan to attract, retain and motivate its eligible executives, employees, officers, directors and consultants. Options to purchase common stock under the Plan have been granted to our officers and employees with an exercise price equal to the fair market value of the underlying shares on the date of grant.

In accordance with current authoritative guidance, we measure stock-based compensation cost at the grant date based on the fair value of the award, and recognize it as an expense over the requisite service period. Stock-based compensation expense for the three months ended March 31, 2010 and 2009 was approximately \$39,000 and \$705,000, respectively. As of March 31, 2010, unrecognized compensation expense relating to non-vested stock options approximated \$343,000 which we expect to recognize through November 2011. During the three months ended March 31, 2010, no options were granted, forfeited, expired or exercised. Through March 31, 2010, no options had been exercised under the Plan.

The grant date fair value of options vested during the three months ended March 31, 2010, was \$37,000.

### Net Loss per Share

The following is a reconciliation of the numerators and denominators of our basic and diluted loss per share computations:

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Loss per share:</b>		
Net loss	\$ (1,426,773)	\$ (3,236,125)
Weighted average shares outstanding	5,369,829	5,361,486
Net loss per share, basic and diluted	\$ (0.27)	\$ (0.60)
Weighted average shares outstanding	5,369,829	5,361,486
Dilutive stock options	—	—
Total common shares and dilutive securities	5,369,829	5,361,486

We did not include stock options, restricted stock or warrants in the diluted earnings per share calculation above because they were anti-dilutive. The following schedule describes our anti-dilutive securities not included in diluted net loss per share.

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2010</b>	<b>2009</b>
Anti-dilutive securities not included in diluted net loss per share calculation:		
Stock compensation plans	787,659	710,345
INTAC options - fully vested	25,000	—
Warrants to purchase common stock	25,000	25,000
Total anti-dilutive securities	837,659	735,345



## 6. COMPREHENSIVE LOSS

The components of total comprehensive income were as follows:

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2010</b>	<b>2009</b>
Net loss	\$ (1,426,773)	\$ (3,236,125)
Net change in foreign currency translation adjustment, net of tax	(5,532)	3,422
Total comprehensive loss	<u>\$ (1,432,305)</u>	<u>\$ (3,232,703)</u>

## 7. RELATED PARTY TRANSACTIONS

On October 30, 2009, the Company entered into and effectuated a series of transactions with Sharecare, a related party. As a result of these transactions, the Company received an equity stake in Sharecare, sold substantially all of the assets of its DailyStrength subsidiary to Sharecare, agreed to provide management and website development services to Sharecare, and received a limited license to use the Sharecare web platform for its own businesses. Through the services agreement, HSWI continues to provide support services to the DailyStrength website. Additionally, the Company issued a promissory note to Sharecare, all of which was offset by services the Company provided to Sharecare during 2009. There was no outstanding balance on the note as of October 30, 2009. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength. We entered into each of these transactions simultaneously.

Jeff Arnold, a member of HSWI's Board of Directors, is the Chairman and Chief Architect and a significant stockholder of Sharecare. Additionally, Discovery Communications, Inc., HSWI's largest stockholder, is a significant stockholder of Sharecare. Until December 17, 2009, Bruce Campbell, President of Digital Media and Business Development for Discovery Communications, was a member of HSWI's Board of Directors. HSWI's Board of Directors established a Special Committee on May 18, 2009, consisting of three independent directors without any interests in Sharecare to evaluate and recommend the terms of these transactions to the Board. The Special Committee engaged a third party financial adviser to provide a fairness opinion on the totality of the transactions. All terms recommended by the Special Committee were unanimously approved by the Board, with Mr. Arnold and Mr. Campbell abstaining from voting.

The Company's revenue from Sharecare for the quarter ended March 31, 2010 totaled approximately \$1.3 million. As of March 31, 2010, HSWI owned approximately 18% of the outstanding common stock of Sharecare. The Company provides web platform services to Sharecare, and Sharecare represented 97% of accounts receivable as of March 31, 2010.

As of March 31, 2010, the Company had outstanding payables due to its affiliate Discovery of \$85,296.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Cautionary Statement Regarding Forward-Looking Information**

The following Management’s Discussion and Analysis of our Financial Condition and Results of Operations should be read in conjunction with the condensed consolidated financial statements and notes thereto included as part of this Form 10-Q. This Form 10-Q contains forward-looking statements based on current expectations. We sometimes identify forward-looking statements with such words as “may”, “will”, “expect”, “anticipate”, “estimate”, “seek”, “intend”, “believe” or similar words concerning future events. The forward-looking statements contained herein include, without limitation, statements concerning future revenue sources and concentration, gross profit margins, selling, general and administrative expenses, capital resources, the sufficiency of our cash resources, the expected effects of the sale of substantially all the assets of our Daily Strength business, and the effects of general industry and economic conditions and are subject to risks and uncertainties including, but not limited to, those discussed below, in Part II, Item 1A. and elsewhere in this Form 10-Q that could cause actual results to differ materially from the results contemplated by these forward-looking statements. Relevant risks and uncertainties include those referenced in our filings with the SEC, and include but are not limited to: risks related to the Sharecare transactions; reliance on third parties for content; economic and industry conditions specific to Brazil and China, such as the state of their telecommunications and internet infrastructure and uncertainty regarding protection of intellectual property; challenges inherent in developing an online business in Brazil and China, including obtaining regulatory approvals and adjusting to changing political and economic policies; governmental laws and regulations, including unclear and changing laws and regulations related to the Internet sector in China; general industry conditions and competition; general economic conditions, such as online advertising rates, interest rate and currency exchange rate fluctuations; and restrictions on intellectual property under agreements with third parties. We also urge you to carefully review the risk factors set forth in Part II, Item 1A. and other documents we file from time to time with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2009.

### **Business Overview and Recent Events**

HSW International, Inc. (“HSWI”) is an online publishing company that develops and operates Internet businesses focused on providing consumers in the world’s digital economies with locally relevant, high quality information, and provides web platform services that support traditional web publishing combined with social media. Our international websites published under the HowStuffWorks brand provide readers in China and Brazil with thousands of articles about how the world around them works, serving as destinations for credible, easy-to-understand reference information. HSW International is the exclusive licensee in China and Brazil for the digital publication of translated content from Discovery Communications, Inc.’s HowStuffWorks.com, and in China for the digital publication of translated content from World Book Inc., publisher of World Book Encyclopedia. Our co-founding and continuing development of Sharecare will create a highly searchable social Q&A healthcare platform organizing and answering the questions of health. We generate revenue primarily through the sale of online advertising on our websites and through service fees charged to clients for web platform development and operation services. We were incorporated in Delaware in March 2006. Our headquarters are located at 3280 Peachtree Road, Suite 600, Atlanta, Georgia 30305.

In October 2009 the Company entered into and effectuated a series of transactions with Sharecare, Inc. Sharecare is a venture among Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of “The Dr. Oz Show”; HARPO Productions, producer of “The Oprah Winfrey Show”; Discovery Communications, the world’s largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications’ Chief of Global Digital Strategy; Sony Pictures Television; and HSWI. Sharecare was founded to develop and build a web platform that simplifies the search for health and wellness information by organizing all of the questions of health and providing multiple answers representing different points of view. As a result of these transactions, we received an equity stake in Sharecare (20% initially, approximately 18% as of March 31, 2010, as a result of subsequent sales of equity by Sharecare to third parties), sold substantially all of the assets of our DailyStrength subsidiary to Sharecare, agreed to provide management and website development services to Sharecare, and received a limited license to use the Sharecare web platform for our own businesses. Additionally, we issued a promissory note to Sharecare for \$1.0 million, all of which was offset by services we provided to Sharecare, and the promissory note is now paid in full and cancelled. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength. We generated revenue of approximately \$1.3 million during the first quarter of 2010 as a result of performing services for Sharecare.

## Business Trends

A portion of our business consists of websites we recently established or acquired. We expect that our business should grow as these websites achieve greater awareness within their markets, resulting in increased usage against which we can sell advertising. While significant online advertising markets exist in Brazil, we believe it will take additional time for meaningful online advertisement rates to develop in China. A recent addition to our service offering includes web platform services. We currently have one customer for our web platform services business and intend to continue prudent investments in building this business for serving multiple customers.

Our Brazilian website *ComoTudoFunciona*, which launched in March 2007, is our most mature business. The number of page views for *ComoTudoFunciona* increased by 48.5% during the first quarter of 2010 compared to the same period in 2009. Additionally, the number of unique visitors to the website increased by 31.5% for the same periods.

Our Chinese website *BoWenWang* launched in June 2008, and results show usage development consistent with a recently launched website. Unlike in Brazil, where we established our website with significant promotional commitments from one of the country's largest Internet portals, *BoWenWang* launched with a focus on organic traffic development. This contributed to initial usage trending below that in Brazil, though the overall traffic in China has now surpassed Brazil. We believe that by focusing on developing business relationships to further the exposure of the website, we should be able to continue to grow usage but are cautious on the revenue outlook since the current economic environment in China and the rate of development of its Internet advertising market has been slower to develop than originally forecasted. The number of page views for *BoWenWang* increased 1,474% during the first quarter of 2010 compared to the same period in 2009. Additionally, the number of unique visitors to the website increased 552% for the same period. We expect to see growth in the number of users and page views, which we believe should result in increased revenues for our Chinese website.

Both seasonal fluctuations in Internet usage and traditional retail seasonality have affected, and are likely to continue to affect, our business. Internet usage generally slows during the summer months, and expenditures by advertisers typically increase in the fourth quarter of each year. These seasonal trends have caused and will likely continue to cause, fluctuations in our quarterly results.

The advertising market declined overall in 2009 due to the global economic downturn. This decline affected online advertising expenditures as well, and has resulted in lower revenue for our business than expected. The economic environment might cause advertisers to continue to reduce the amount they spend on online advertising, which could negatively affect the growth rate of our revenues. If operating results deteriorate or do not improve, or if unfavorable changes occur in other economic factors used to estimate fair values, we might incur non-cash impairment charges to our long-lived assets in the future.

Given our investments and progress in building our infrastructure and developing our personnel over the past years, in 2009 we began offering web platform services to other companies seeking cost effective solutions for developing and operating innovative websites. Our newest business leverages our existing expertise in innovative web platform design and development, including our own websites in Brazil and China as well as the Web 3.0 platform we are developing, and our ability to support and service web platforms and applications.

We continue to invest in building what we believe are the necessary employee and systems infrastructures required to manage our growth and develop and promote our products and services. Additionally, we plan to maintain an awareness of the alignment of our costs and revenues, and make operating adjustments as we believe necessary to best position HSW International for success.

## Our Operations

### *ComoTudoFunciona – HowStuffWorks Brazil*

*ComoTudoFunciona* (<http://hsw.com.br>) is Brazil's online source for credible, unbiased and easy-to-understand explanations of how the world actually works. The Portuguese-language site is the exclusive digital publisher in Brazil of translated and localized content from the leading Discovery Communications brand HowStuffWorks, and is published from HSWI's São Paulo offices. *ComoTudoFunciona* was established in March 2007, and as of March 31, 2010, had published over 6,300 articles that were either originally created content or translated and localized from HowStuffWorks. We are continuing the development of our business strategy in Brazil as we focus on expansion by adding original proprietary digital content designed to meet the information needs of the Brazilian online community, expanding the amount of translated content from HowStuffWorks, pursuing strategic business partnerships, and refining local marketing and business development strategies. We recognized approximately \$26,000 and \$47,000 of revenue from Brazil during the three months ended March 31, 2010, and 2009, respectively. Results of operations are included in the digital online publishing reporting segment.

### ***BoWenWang – HowStuffWorks China***

*BoWenWang* (<http://www.bowenwang.com.cn>) is an information and reference website that provides China with encyclopedic knowledge and easy-to-understand explanations of how the world works. The website is published from Beijing in the Chinese language. Launched in June 2008, *BoWenWang* features a combination of original content authored by the Company, translated and localized articles from the leading Discovery Communications brand HowStuffWorks, and content from World Book, Inc.

*BoWenWang* is the exclusive digital publisher in China of translated HowStuffWorks content. In September 2008, we entered into an exclusive content partnership with World Book, Inc. to dramatically increase the amount of content published on *BoWenWang*. In 2009, World Book created thousands of original Chinese-language articles providing information on many branches of knowledge, including arts, sciences, technology, mathematics, sports, and recreation, exclusively for our Chinese website. At March 31, 2010, we had published over 13,000 articles in China.

Revenue generated from the operations based in China was approximately \$1,400 during the three months ended March 31, 2010. No revenue was generated from the operations based in China during the three months ended March 31, 2009. Results of operations are included in the digital online publishing reporting segment.

### ***DailyStrength***

Now owned by Sharecare, DailyStrength.org offers content authored by medical professionals based on current topics, support groups, a treatment directory with definitions, private messaging, message boards and personal goal trackers, and primarily serves English-speaking territories including the United States, Canada, Australia and the United Kingdom. The medical panel of professionals contributes articles and journals providing insight to a number of topics relevant to the DailyStrength user group and communities. Additionally, DailyStrength offers users and members the opportunity to launch communities for groups of like-minded individuals regarding topics of personal significance using leading community tools to interact.

On October 30, 2009, we sold substantially all of the assets of DailyStrength to Sharecare as part of the Sharecare Transactions. As a result, DailyStrength, previously reported in our Social Media segment, is no longer an operating segment of our Company. Instead, we provide services to Sharecare for the DailyStrength website under the Letter Agreement for Services described below. In addition, we own a minority investment in Sharecare, as further discussed below. Results of operations for DailyStrength for the three months ended March 31, 2009 are included in the social media reporting segment.

### ***Investment in Sharecare – a related party***

On October 30, 2009, the Company entered into and effectuated a series of transactions with Sharecare, Inc. (the "Sharecare Transactions"), which was established as a venture among: Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of "The Dr. Oz Show"; HARPO Productions, producer of "The Oprah Winfrey Show"; Discovery Communications, the world's largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications' Chief of Global Digital Strategy; and HSWI. Sharecare was created to build a web-based platform that simplifies the search for health and wellness information by organizing a vast array of the questions of health and providing multiple answers from experts, organizations, publishers, and caregivers representing various points of view.

As a result of these transactions, the Company:

- Entered into a subscription agreement for the purchase of 125,000 shares of common stock of Sharecare, representing 20% ownership of Sharecare at the time of purchase;
- Sold substantially all of the assets of its DailyStrength subsidiary to Sharecare;
- Agreed to provide management and website development services to Sharecare; and
- Received a limited license to use the Sharecare web platform for HSWI's own businesses.

Additionally, the Company issued a promissory note for \$1 million to Sharecare, all of which has been satisfied by services the Company provided to Sharecare during 2009. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength.

Jeff Arnold, a member of HSWI's Board of Directors, is the Chairman and Chief Architect and a significant stockholder of Sharecare. Additionally, Discovery Communications, Inc., HSWI's largest stockholder, is a significant stockholder of Sharecare. HSWI's Board of Directors established a Special Committee consisting of three independent directors without any interests in Sharecare to evaluate and recommend the terms of these transactions to the Board. The Special Committee engaged a third party financial advisor to provide a fairness opinion on the totality of the transactions.

We account for our investment in Sharecare under the equity method of accounting. As of March 31, 2010, we recognized a loss in the equity investment of \$77,494, net of taxes.

### *Web Platform Services*

In October 2009, the Company entered into a Letter Agreement for Services with Sharecare pursuant to which the Company agreed to perform services related to the design, development, hosting and related services necessary to launch and operate the Sharecare website through our direct activities and management of third party vendors. Sharecare agreed to pay us for the fully burdened cost of our personnel dedicated to the services and other costs incurred in providing the services plus a fixed monthly management fee for services performed. This agreement will expire on June 30, 2010, unless the Company and Sharecare agree to extend the term or enter into a new services agreement. We are currently in discussions with Sharecare regarding this matter.

All of our revenue recognized in our web platform services segment in the first quarter of 2010 resulted from the services we performed for Sharecare.

## Results of Operations

The following table sets forth our operations for the three months ended March 31, 2010 and 2009.

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating revenue</b>		
Web platform services	\$ 1,346,630	\$ —
Social media	—	79,607
Digital online publishing	27,481	46,723
Total revenue	1,374,111	126,330
<b>Cost of services</b>	<u>1,149,304</u>	<u>388,528</u>
<b>Gross margin</b>	224,807	(262,198)
<b>Operating expenses</b>		
Selling, general and administrative (including stock-based compensation expense of \$38,968 and \$704,706 for the three months ended March 31, 2009 and 2008, respectively)	1,503,975	3,033,631
Depreciation and amortization	75,382	115,788
Total operating expenses	<u>1,579,357</u>	<u>3,149,419</u>
<b>Total operating loss</b>	<u>(1,354,550)</u>	<u>(3,411,617)</u>
<b>Other income</b>		
Interest income	5,271	15,492
Other income	—	160,000
Total other income	<u>5,271</u>	<u>175,492</u>
<b>Loss from operations before income taxes and equity in loss of equity method investment</b>	(1,349,279)	(3,236,125)
Equity in loss of equity-method investment, net of taxes	<u>(77,494)</u>	<u>—</u>
<b>Net loss</b>	<u>\$ (1,426,773)</u>	<u>\$ (3,236,125)</u>

### Segment Data

We monitor and analyze our financial results on a segment basis for reporting and management purposes, as is presented in Note 4 to our Condensed Consolidated Financial Statements hereto. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company reported two operating segments for the first three quarters of 2009: (1) social media; and (2) digital online publishing. Our social media segment was comprised of our DailyStrength operations, which generated revenues from the advertisers based primarily in the United States. We sold substantially all of the assets of the social media segment to a related party, Sharecare, on October 30, 2009. Subsequently, we no longer recognize activity within that segment. Our digital online publishing segment consists of our websites in Brazil and China and generates revenues from advertisers based in the respective countries.

In October 2009 the Company entered into a Letter Agreement for Services with Sharecare pursuant to which the Company agreed to perform services related to the design, development, hosting and related services necessary to launch and operate the Sharecare websites through our direct activities and management of third party vendors. The operating results for services performed under the Sharecare Services agreement are included in the web platform services segment.

### Revenue

Total revenue for the three months ended March 31, 2010 was approximately \$1.4 million, an increase of approximately \$1.3 million from the comparable period in 2009. The increase was due to the introduction of our web platform services generating approximately \$1.3 million during the quarter. Revenue generated from our Digital Online Publishing segment was approximately \$27,000 for the first quarter of 2010. Due to the sale of the DailyStrength assets in October 2009, no revenue was generated from our



Social Media segment. For the three months ended March 31, 2010, our Brazil-based website generated approximately 20% of revenue from the Digital Online Publishing segment from paid-for-impression advertising and 80% from pay-per-performance ads. We recognized revenue of approximately \$1,400 in the Digital Online Publishing segment from China during the three months ended March 31, 2010.

### **Cost of Services**

Cost of services includes the ongoing third-party costs to acquire original content, translate and localize content from English to Portuguese and Chinese, as well as costs incurred to support our web platform services including labor, content and third party platform support services. These costs were \$1.1 million and \$0.4 million for the three months ended March 31, 2010, and 2009, respectively. The increase is primarily attributable to costs incurred to support our web platform services.

### **Operations - Selling, General and Administrative Expenses**

Our total selling, general and administrative expenses decreased by \$1.5 million from \$3.0 million to \$1.5 million for the three months ended March 31, 2010 from the comparable period in 2009. In conjunction with our new web platform services business, we redirected existing resources that provided technology support in the first half of 2009 to this segment to provide services to our web platform customer. As these costs support the web platform services revenue, they have been recorded as cost of services for the period ending March 31, 2010, thereby creating a decrease in our selling, general and administrative expense compared to the period ended March 31, 2009. Additionally, our stock-based compensation expense was \$0.6 million less than the same period in 2009 reflecting vesting of options at our higher stock prices in earlier periods.

### **Other Income**

Total other income decreased approximately \$170,000 for the three months ended March 31, 2010, compared to the same period in 2009 due to income from a contract termination payment from a former customer recognized in the first quarter of 2009, as well as lower interest rates and less cash on hand resulting in lower interest income during 2010.

### **Loss in Equity Investment**

We account for our investment in Sharecare under the equity method of accounting. As of March 31, 2010, we recognized a loss in the equity investment of \$77,494, net of taxes.

### **Income Tax Benefit**

There was no tax benefit as of March 31, 2010, as a full valuation allowance was recorded against our deferred tax assets.

### **Recent Accounting Pronouncements**

Recent accounting pronouncements are summarized in Note 2 to the accompanying consolidated financial statements.

### **Liquidity and Capital Resources**

Cash and cash equivalents was \$7.5 million at March 31, 2010, compared to \$8.7 million at December 31, 2009. The decrease in cash is primarily due to the use of working capital to fund operations.

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows</b>		
Used in operating activities	\$ (1,217,512)	\$ (1,943,055)
Used in investing activities	(4,608)	(28,417)
Provided by financing activities	—	—
<b>Net change in cash and cash equivalents</b>	<b>(1,222,120)</b>	<b>(1,971,472)</b>
Impact of currency translation on cash	(5,532)	3,414
Cash and cash equivalents at beginning of period	8,724,546	18,020,159
<b>Cash and cash equivalents at end of period</b>	<b>\$ 7,496,894</b>	<b>\$ 16,052,101</b>

### **Cash flows from operations**

Our net cash used in operating activities during the three months ended March 31, 2010, decreased by approximately \$726,000 compared to the same period in the prior year due to cost-cutting measures and a reduction in professional fees.

### **Cash flows from investing activities**

During the three months ended March 31, 2010, net cash used in investing activities was approximately \$5,000 compared to \$28,000 in the same period of 2009.

### **Cash flows from financing activities**

For the three months ended March 31, 2010 and March 31, 2009, there was no net cash provided by financing activities.



### *Liquidity Considerations*

The global financial downturn continues to have a negative effect on the demand for advertising in general, including online advertising. Economic uncertainty has had and might continue to have a direct impact on our revenue as orders for online advertising have declined and our typical advertiser is spending less per order than in the prior year. Also, our businesses in Brazil and China, which we launched in the past few years, are still in a growth stage as we continue to focus on building towards a critical mass of traffic volume. In consideration of projected market conditions and near-term revenue expectations, we consolidated certain administrative functions at the end of the fourth quarter 2009 to reduce headcount and better align our costs with our 2009 strategic initiatives which resulted in cost reductions. We consistently monitor our cash position to make adjustments as we believe necessary to maintain our operational objectives of funding ongoing operations and continuing to make technological investments in our websites and their respective brands.

We expect to continue to expend resources in expanding and gaining market share for our internet platforms in Brazil and China, including additional investments to create or acquire content. We currently do not have any material commitments for capital expenditures. Our anticipated investments will be made in the respective markets based on our success and anticipated market conditions and trends. We expect that most of these investments will be paid or under commitment before we begin to realize significant revenues. Additionally, in the normal course of business, we continue to explore various business initiatives that may lead to additional sources of revenue and growth. We believe that our current cash balance, combined with our expected cash generated from future operations and recently implemented cost reduction measures, should provide sufficient cash to fund operations for at least the next twelve months. However, if cash on hand and generated from operations is insufficient to satisfy our working capital and capital expenditure requirements, we might implement further cost reduction strategies, sell additional equity or obtain debt financing to fund further development and attain profitability. There is no assurance that such financing will be available or that we will be able to complete financing on satisfactory terms, if at all, or that we will achieve profitability.

We expect that our recently announced service agreement with Sharecare will generate revenues for our company. However, as Sharecare is a newly formed entity and the service agreement expires in June 2010, there can be no assurance that the amounts generated will be sufficient to cover our liquidity needs for the long-term.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We translate the foreign currency financial statements of our international operations into U.S. dollars at current exchange rates, except revenue and expenses, which we translate at average exchange rates during each reporting period. We accumulate net exchange gains or losses resulting from the translation of assets and liabilities in a separate section of stockholders' equity titled Accumulated other comprehensive income. Generally, our foreign expenses are denominated in the same currency as the associated foreign revenue, and at this stage of development the exposure to rate changes is minimal.

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and accounts receivables. At March 31, 2010, 99% of our cash was denominated in U.S. dollars. The remaining 1% was denominated in Brazilian Reais, Chinese Renminbi or Hong Kong Dollars. All our cash is placed with financial institutions we believe are of high credit quality. Our cash is maintained in bank deposit accounts, which, at times, exceed federally insured limits. We have not experienced any losses in such accounts and do not believe our cash is exposed to any significant credit risk.

We do not use financial instruments to hedge our foreign exchange exposure because the effects of the foreign exchange rate fluctuations are not currently significant. We do not use financial instruments for trading purposes. We do not use any derivative financial instruments to mitigate any of our currency risks. The net assets of our foreign operations at March 31, 2010, were approximately \$400,000.

We have not entered into long-term agreements or borrowing arrangements with third parties under which any amounts were outstanding during 2010. Therefore, we do not believe we have any material exposure to market risk changes in interest rates.

We do not currently have any credit facilities and therefore are not subject to interest rate risk. Due to the nature of our short-term investments and our lack of debt, we have concluded that we face no material market risk exposure.

### **Item 4. Controls and Procedures**

Our Chief Executive Officer and our Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to

provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

None.

### Item 1A. Risk Factors.

This report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in this report. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this report and in any documents incorporated in this report by reference.

***We continue to develop our business and prospects are difficult to evaluate.***

We have a limited operating history and limited experience in the Chinese Internet, Brazilian Internet, and web platform markets. We are in varying development stages of our business, with a limited operating history upon which investors and others can evaluate our current business and prospects. Our prospects must be considered in light of the many risks, uncertainties, expenses, delays, and difficulties frequently encountered by companies in their early stages of development. Some of the risks and difficulties we expect to encounter include our ability to:

- successfully commercialize and monetize the contributed and acquired assets;
- successfully attract advertisers for our websites and clients for our web platform services;
- continue to raise additional working capital, the lack of which would likely have a significant negative impact on our long term business plan and our ability to take advantage of our strategic alliances and to successfully execute our expansion plan;
- manage our expense structure as a U.S. public company including, without limitation, compliance with the Sarbanes Oxley Act;
- manage the anticipated rise in operating expenses;
- manage and implement successfully new business strategies;
- adapt and successfully execute our evolving and unpredictable business model, with which we will have only limited experience;
- establish and take advantage of contacts and strategic relationships;
- adapt to our potential diversification into other industries and geographic regions;
- manage and adapt to rapidly changing and expanding operations;
- implement and improve operational, financial and management systems and processes;
- respond effectively to competitive developments;
- attract, retain and motivate qualified personnel; and
- manage each of the other risks set forth in this report.

Because of our lack of operating history and the early stage of development of our business, we will have limited insight into trends and conditions that may exist or emerge and affect our business, especially with respect to the online publishing market. We cannot be certain that our business strategy will be successful or that it will successfully address these risks. Any failure by us to successfully implement our new business plans could have a material adverse effect on our business, results of operations and financial condition.

***We may not have sufficient liquidity to support the time required for our business to fully develop.***

The Company is in the process of developing Internet businesses, including publishing businesses in two emerging markets and a web services business. We currently operate at a loss and with a substantial negative cash flow from operations. While we believe that our cash resources on hand are sufficient to fund these businesses for a period of at least 12 months, our cash resources are not sufficient to fund these businesses for an extended period beyond that unless revenues increase significantly or we find other sources of capital, neither of which can be assured. Our management and directors continually evaluate our progress and likelihood of success in each of our markets, and our ability to raise additional capital, against the relative value of our resources and other opportunities. Accordingly, we might decide to suspend our activities in one or more of our markets in order to focus our limited resources in the other(s).

***We may not be able to raise additional funds when needed for our business or to exploit opportunities.***

We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may attempt to raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements. There can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders.

***We may not succeed in marketing and monetizing our assets to potential customers or developing strategic partnerships for the distribution of our products and services.***

Our plans to market and monetize our assets in the Chinese and Brazilian online markets through the Internet are new and unproven. Moreover, we will have limited experience in determining the pricing of the products and services that we plan to develop. Because we have never marketed or sold these products and services, we may not be successful in establishing a customer base or strategic partnerships for the distribution of our products and services. If we are not successful in developing, releasing and marketing these products and services on a profitable basis, our results of operations would be materially and adversely affected.

We do not have significant experience in the Brazilian and Chinese marketplaces. Additionally, we may not have the resources available to simultaneously develop operations in China and Brazil. Accordingly, there may be a delay in developing such operations or we might decide not to pursue these markets, which could affect our business plan and results of operations.

***The growth we seek is difficult to achieve and will place significant strain on our resources.***

Substantial future growth will be required in order for us to realize our business objectives. Growth of this magnitude is rare. To the extent we are capable of growing our business as necessary, we expect that such growth will place a significant strain on our managerial, operational and financial resources. We must manage our growth, if any, through appropriate systems and controls in each of these areas. We must also establish, train and manage a larger work force. If we do not manage the growth of our business effectively, our business, results of operations and financial condition could be materially and adversely affected.

***We face intense competition, which could have an adverse effect on our business, financial condition and results of operations.***

The online publishing and web platform services markets are highly competitive. We encounter significant competition across our business lines and in each market in which we offer our products and services. In the online publishing market, we expect that our competitors will include (i) national Internet portals in China such as Baidu, NetEase.com, Shanda Interactive Entertainment, Sina, sohu.com and tom.com, and (ii) national websites in Brazil such as Terra and UOL, all of which will compete with us for online advertising revenue and end users. Many of our competitors have more experience, resources and website visitors than us. In the web platform services market, many of our competitors have been providing similar services for an extended period of time, and have developed established brands, reputations, offerings, and client bases. Many of our web platform services competitors have more experience and resources than we do.

***Resales of our common stock and additional obligations to issue our common stock may cause the market price of our stock to fall.***

We registered an aggregate of 3,363,419 shares of our common stock held by INTAC affiliates, HowStuffWorks and investors that participated in our equity financings, and those investors could resell that stock. In addition, HowStuffWorks holds a warrant to purchase 25,000 shares of our common stock. The issuance of these new shares and the resale of additional shares of our common stock could depress the market price for our common stock.

***Various factors could negatively affect the market price or market for our common stock.***

The market for and price of our common stock could be affected by the following factors:

- general market and economic conditions;
- our common stock has been thinly traded; and
- minimal third party research is available regarding our company.

Additionally, the terms of the Discovery Merger provided that payment to HowStuffWorks shareholders for a significant portion of HowStuffWorks' ownership of our common stock would not be paid at the October 2007 closing of the transaction and instead

are payable to HowStuffWorks' former shareholders in three semi-annual installments. The installments were planned to begin in October 2008; however, the shareholder representative has not authorized payment as of December 31, 2009. Such payments will be in the form of cash or shares of HSWI stock now held by HowStuffWorks. Accordingly, the amount of shares of our common stock Discovery owns in the future may fall due to a combination of reasons. All of our rights to publish HowStuffWorks content will remain effective regardless of the number of shares HowStuffWorks owns in the future. If Discovery and HowStuffWorks' former shareholders' representative elect to distribute shares of our common stock to former HowStuffWorks shareholders, a significant number of shares may be sold by such shareholders relative to the daily market trading volumes for our common stock. These factors could also affect our common stock, and depress the market price for our common stock or limit the market for resale of our common stock.

***We might not be able to remain listed on The NASDAQ Stock Market.***

In September 2009, we received a notice from The NASDAQ Stock Market indicating that we no longer complied with the continued listing requirement that our shares of common stock maintain a minimum closing bid price of \$1.00. In response, we conducted the Reverse Split and regained compliance with continued listing standards. However, our common stock might not remain equal to or in excess of the \$1.00 minimum closing bid for a substantial period of time. The market price of our common stock is also based on other factors outside of our control.

In March 2010, the Company received a notice from The NASDAQ Stock Market indicating that it no longer complies with the requirements of NASDAQ Marketplace Rule 5450(b)(1)(C) for continued listing on The NASDAQ Global Market. The rule requires that the publicly held shares of the Company, which is calculated by subtracting all shares held by officers, directors or beneficial owners of 10% or more of the total shares outstanding, maintain a minimum market value of \$5,000,000. The Company has 180 calendar days, or until September 27, 2010, in which to regain compliance with the listing requirement by having the market value of its publicly held shares close at \$5,000,000 or more for ten consecutive business days. If the Company does not regain compliance prior to the expiration of the 180-day grace period, NASDAQ will provide written notice that the Company's common stock is subject to delisting. Alternatively, the Company may transfer its listing to The NASDAQ Capital Market, provided that it satisfies the requirements for continued listing on The NASDAQ Capital Market. If the bid price for our shares of common stock falls below \$1.00 again, if the market value of our publicly held shares remains below \$5,000,000, or if we do not meet other continued listing requirements of NASDAQ, our common stock may be delisted.

***Our internal control over financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur. Internal control over financial reporting and disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objective will be met.***

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be satisfied. Internal control over financial reporting and disclosure controls and procedures are designed to give a reasonable assurance that they are effective to achieve their objectives. We cannot provide absolute assurance that all of our possible future control issues will be detected. These inherent limitations include the possibility that judgments in our decision making can be faulty, and that isolated breakdowns can occur because of simple human error or mistake. The design of our system of controls is based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed absolutely in achieving our stated goals under all potential future or unforeseeable conditions. Because of the inherent limitations in a cost effective control system, misstatements due to error could occur and not be detected.

***We may have additional tax liabilities if tax positions we have taken in prior years are challenged.***

We and our subsidiaries are subject to taxes in the United States and various foreign jurisdictions. We believed that our tax returns appropriately reflected our tax liability when those tax returns were filed. However, applicable tax authorities may challenge our tax positions. Any successful challenge to one or more of our prior tax positions could result in a material tax liability to us or to one or more of our subsidiaries, including INTAC, for one or more prior years.

***The state of the Internet infrastructure in China and Brazil may limit our growth.***

We rely on the Internet for certain aspects of our business, including the publication of content online and our Internet portals. The Internet infrastructures in China and Brazil are not well developed and are subject to regulatory control and, in the case of China, ownership by the Chinese government. The cost of Internet access is high relative to the average income in China. Failure to further develop these infrastructures could limit our ability to grow. Alternatively, as these infrastructures improve and Internet use increases, we may not be able to scale our systems proportionately. Our reliance on these infrastructures will make us vulnerable to

disruptions or failures in service, without sufficient access to alternative networks and services. Such disruptions or failures could reduce our user satisfaction. Should these risks be realized, our ability to increase revenues and profitability would be impaired.

***Our operations are vulnerable to natural disasters and other events.***

While we believe we have adequate backup systems in place, we could still experience system failures and electrical outages from time to time in the future, which could disrupt our operations. All of our servers and routers are currently hosted in a single location, a Tier 4 data center. We do not have a documented disaster recovery plan in the event of damage from fire, flood, typhoon, earthquake, power loss, telecommunications failure, break in or similar events. If any of the foregoing occurs, we may experience a temporary system shutdown. If there is significant disruption or damage to the data center hosting our web servers, our ability to provide access to our websites would be interrupted. We do not carry any business interruption insurance. Although we carry property insurance, our coverage may not be adequate to compensate us for all losses, particularly with respect to loss of business and reputation that may occur.

***Our network operations may be vulnerable to hacking, viruses and other disruptions, which may make our products and services less attractive and reliable.***

Internet usage of our products could decline if any well publicized compromise of our security occurs. “Hacking” involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. Hackers, if successful, could misappropriate proprietary information or cause disruptions in our service. We may be required to expend capital and other resources to protect our website against hackers. We cannot assure you that any measures we may take will be effective. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability, as well as materially damage our reputation and decrease our user traffic.

***Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.***

We regard our copyrights, service marks, trademarks, trade secrets and other intellectual property as critical to our success. Unauthorized use of our intellectual property by third parties may adversely affect our business and reputation. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it is possible for third parties to obtain and use our intellectual property without authorization. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet related industries are uncertain and still evolving. In particular, the laws of the PRC, Brazil and other countries are uncertain or do not protect intellectual property rights to the same extent as do the laws of the United States. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Future litigation could result in substantial costs and diversion of resources.

***We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, materially disrupt our business.***

We cannot be certain that our products and services will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may in the future be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. In particular, if we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and may incur licensing fees or be forced to develop alternatives. We may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liability or may materially disrupt the conduct of our business.

***Our sublicensed content is subject to the terms and conditions of agreements between HowStuffWorks and third parties.***

Under the terms of our contribution agreements, HowStuffWorks transferred and contributed to us all rights, but only those rights, that belong to and are held by HowStuffWorks pursuant to third-party licenses. Some of those licenses, including those with Publications International, Inc., contain restrictions on the use of content and termination provisions for breaches of the license agreements. Accordingly, a breach of any third party license by HowStuffWorks may cause us to lose our license with such third party, which could have a material adverse effect on the implementation of our business plan, value of our content offering and results of our operations.

***A slowdown or other adverse developments in the PRC or Brazil economy may materially and adversely affect our customers, demand for our services and our business.***

We may be sensitive to a slowdown in economic growth or other adverse changes in the PRC and Brazil economies. This is particularly true in light of current financial and economic uncertainties. In response to adverse economic developments, companies have reduced spending on marketing and advertising. As a result, a slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in China or Brazil may materially reduce the demand for our services and materially and adversely affect our business.

***PRC laws and regulations related to the PRC Internet sector are unclear and will likely change in the near future. If we are found to be in violation of current or future PRC laws or regulations, we could be subject to severe penalties.***

The PRC regulates its Internet sector by making pronouncements or enacting regulations regarding the legality of foreign investment in the PRC Internet sector and the existence and enforcement of content restrictions on the Internet. There are substantial uncertainties regarding the interpretation of current PRC Internet laws and regulations, including those discussed below.

The PRC enacted regulations applying to Internet related services and telecommunications related activities. While many aspects of these regulations remain unclear, they purport to limit and require licensing of various aspects of the provision of Internet information services. The Ministry of Information Industry, or MII, has also stated that the activities of Internet content providers are subject to regulation by various PRC government authorities, depending on the specific activities conducted by the Internet content provider. Various government authorities have stated publicly that they are in the process of preparing new laws and regulations that will govern these activities. The areas of regulation currently include online advertising, online news reporting, online publishing, online securities trading and the provision of industry specific (e.g., drug related) information over the Internet. Other aspects of our online operations may be subject to regulation in the future.

Under the agreement reached in November 1999 between the PRC and the United States concerning the United States' support of China's entry into the World Trade Organization, or the WTO, foreign investment in PRC Internet services was to be liberalized to allow for 30% foreign ownership in key telecommunication services, including PRC Internet ventures, for the first year after China's entry into the WTO, 49% in the second year and 50% thereafter. China officially entered the WTO on December 11, 2001. However, the implementation of China's WTO accession agreements is still subject to various conditions.

The interpretation and application of existing PRC laws and regulations, the directives of the MII and the possible new laws or regulations have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, PRC Internet companies, including us. Accordingly, it is possible that the relevant PRC authorities could, at any time, assert that any portion or all of our ownership structure and business violate existing or future PRC laws, regulations or policies. It is also possible that the new laws or regulations governing the PRC Internet sector that have been adopted or may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, any of our proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied to us .

If we are found to be in violation of any existing or future PRC laws or regulations, the relevant PRC authorities would have broad discretion in dealing with such violation, including, without limitation, the following:

- levying fines;
- confiscating our income;
- revoking our business licenses;
- pursuing criminal sanctions against our business and personnel;
- shutting down our servers and/or blocking our websites;
- requiring us to restructure our ownership structure or operations; and
- requiring us to discontinue any portion or all of our Internet business.

Any of these actions could have a material adverse effect on our financial condition and results of operations.

***A 2006 regulation establishes more complex procedures in the PRC for acquisitions conducted by foreign investors, which could make it more difficult for us to pursue growth through acquisitions.***

In August 2006, six PRC regulatory agencies - the PRC Ministry of Commerce, or the MOC, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the Chinese State Administration for Foreign Exchange, or SAFE, jointly adopted the

Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which became effective in September 2006. Among other things, the new regulations established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requiring in some instances that the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. We may grow our business in part by directly acquiring complementary businesses in China. Complying with the requirements of the new regulations could be time-consuming, and any required approval processes, including obtaining approval from the MOC, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***We face risks related to health epidemics and other outbreaks, particularly in the PRC.***

Our business could be adversely affected by outbreaks of avian influenza, SARS or other widespread diseases. Many users of our Websites, especially in China, access the Internet at public cafes. Any prolonged recurrence of avian influenza, SARS or other widespread disease in China could prompt the government to restrict people's movements, limit gathering in public places, or otherwise prevent our users from accessing Internet cafes. If our users cannot access Internet cafes, or we are unable to staff our office in China, our business operations could be materially affected. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian influenza, SARS or any other epidemic.

***We may incur substantial administrative and staffing cost due to the PRC's new labor contract law.***

In 2007 the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective in January 2008. The Labor Contract Law's goal is to improve job security and to protect the rights and interests of employees. In order to fully comply with the legal requirements under the Labor Contract Law, we may incur substantial administrative and staffing cost, which could adversely affect our results of operations.

***The online advertising markets in China and Brazil are still developing, and present risk to our revenues to be generated from our online publishing business using the contributed assets.***

We expect our online publishing businesses in China and Brazil to derive significant revenue from online advertisements. The online advertising markets in China and Brazil are still developing, and future growth and expansion of these markets is uncertain. If these online advertising markets do not grow at expected rates, our results of operations and financial condition will be materially adversely affected.

***Our international operations subject us to other significant risks including unpredictable governmental regulation in China and Brazil.***

Our international operations expose us to a wide variety of other risks including increased credit risks, customs duties, import quotas and other trade restrictions, potentially greater inflationary pressures, and the risk of failure or material interruption of wireless systems and services. Changes may occur in foreign trade and investment laws in the territories and countries where we will operate. U.S. laws and regulations relating to investment and trade in foreign countries could also change to our detriment. Any of these factors could materially and adversely affect our revenues and profits. We are subject to risk of political instability and trade sanctions within China.

China has traditionally been a closed market with strict political controls. As China shifts to a market economy, growing economic and social freedoms may conflict with the more restrictive political and governmental policies. In addition, democratic countries throughout the world have, from time to time, attempted to use economic and other sanctions to achieve political or social change in other countries. Each of these factors could result in economic sanctions, economic instability, the disruption of trading and war within China and the Asia Pacific Rim, any of which could result in our inability to conduct business operations in China. Because we expect a substantial amount of our business to be within China in the long term, the disruption of distribution channels into China would have material and adverse consequences to our business.

In the past, the Brazilian government has intervened in the Brazilian economy and occasionally made drastic changes in economic policy. The Brazilian government's actions to control inflation and affect other policies have included high interest rates, wage and price controls, currency devaluations, capital controls and limits on exports, among other actions. Our business, financial condition, revenues, results of operations, prospects and the market price of our securities may be adversely affected by changes in Brazilian government policies, as well as general economic factors, including:

- currency fluctuations;
- exchange controls and restrictions on remittances abroad, such as those that were briefly imposed on such remittances (including dividends) in 1989 and in the beginning of 1990;
- inflation;
  - price instability;
  - energy policy;
  - interest rate increases;
  - liquidity of domestic capital and lending markets;
  - changes in tax policy; and
  - other political, domestic, social and economic developments in or affecting Brazil.



Also, the President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses operating in Brazil. We have no control over, and cannot predict what policies or actions the Brazilian government may take in the future.

Further risks relating to international operations include, but are not restricted to, unexpected changes in legal and regulatory requirements, changes in tariffs, exchange rates and other barriers, political and economic instability, possible effects of war and acts of terrorism, difficulties in accounts receivable collections, difficulties in managing distributors or representatives, difficulties in staffing and managing international operations, difficulties in protecting our intellectual property overseas, seasonality of sales and potentially adverse tax consequences. Any of these factors could materially and adversely affect our revenues and profits.

***Restrictions on currency exchange may limit our ability to utilize our revenues effectively.***

Some of our operating expenses are denominated in Chinese *Renminbi*. Currently, we may purchase foreign exchange for settlement of “current account transactions” without the approval of the SAFE. We may also retain foreign exchange in our current account (subject to a ceiling approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future.

Additionally, some of our revenues and operating expenses are denominated in Brazilian *Reais*. Brazilian law allows the Brazilian government to impose restrictions on the conversion of the *Real* into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. The government may impose such restrictions whenever there is a serious imbalance in Brazil’s balance of payments or there are reasons to foresee a serious imbalance. The Brazilian government last imposed remittance restrictions for approximately six months in 1989 and early 1990. The likelihood that the Brazilian government would impose such restrictions again depends on the extent of Brazil’s foreign currency reserves, the availability of foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil’s debt service burden relative to the economy as a whole, Brazil’s policy toward the International Monetary Fund and other factors.

Since a significant amount of our revenues will be denominated in *Renminbi*, existing and future restrictions on the exchange of *Renminbi* to other currencies may limit our ability to use revenue generated in *Renminbi* to fund our business activities outside China, if any, or expenditures denominated in foreign currencies. Similarly, in the event that a significant amount of our revenues are denominated in *Reais*, any future restrictions on the exchange of *Reais* for other currencies or the remittance to foreign investors of proceeds from their investments in Brazil may limit our ability to use revenue generated in *Reais* to fund our business activities outside Brazil, or expenditures denominated in foreign currencies.

***We are subject to risks of currency fluctuations and exchange restrictions.***

Currency fluctuations, devaluations and exchange restrictions may adversely affect our liquidity and results of operations. In some countries, local currencies are not readily converted into Euros or U.S. dollars (or other “hard currencies”) or are only converted at government controlled rates, and, in some countries, the transfer of hard currencies offshore has been restricted from time to time. Very limited hedging transactions are available in China to reduce its exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure, if at all. Our revenues as expressed in our U.S. dollar financial statements will decline in value if *Renminbi* or *Reais* depreciate relative to the U.S. dollar. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert *Renminbi* into U.S. dollars or by Brazilian exchange control regulations that restrict our ability to convert *Reais* into U.S. dollars.

***Regulation and censorship of information collection and distribution in China may adversely affect our business.***

China has enacted regulations governing Internet access and the distribution of news and other information. Furthermore, the Propaganda Department of the Chinese Communist Party has been given the responsibility to censor news published in China to ensure, supervise and control a particular political ideology. In addition, the MII has published implementing regulations that subject online information providers to potential liability for content included on their portals and the actions of subscribers and others using their systems, including liability for violation of PRC laws prohibiting the distribution of content deemed to be socially destabilizing. Because many PRC laws, regulations and legal requirements with regard to the Internet are relatively new and untested, their interpretation and enforcement involve significant uncertainty. In addition, the PRC legal system is a civil law system in which decided legal cases have limited binding force as legal precedents. As a result, in many cases it is difficult to determine the type of content that will result in liability for a website operator.

Periodically, the Ministry of Public Security has stopped the distribution over the Internet of information which it believes to be socially destabilizing. The Ministry of Public Security has the authority to cause any local Internet service provider to block any website maintained outside China at its sole discretion. If the PRC government were to take action to limit or eliminate the distribution of information through our portals or to limit or regulate current or future applications available to users of our portals, our business would be adversely affected.

The State Secrecy Bureau, which is directly responsible for the protection of state secrets of all PRC government and Chinese Communist Party organizations, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information. Under the applicable regulations, we could be held liable for any content transmitted on our portal. Furthermore, where the transmitted content clearly violates the laws of the PRC, we will be required to delete it, and where the transmitted content is considered suspicious, we are required to report such content. We must also undergo computer security inspections, and if we fail to implement the relevant safeguards against security breaches, our operations in the PRC could be shut down.

Although the PRC has several laws and regulations relating to the use of the Internet, addressing personal privacy in use of the Internet and the freedom of communications, the PRC government does not restrict online service providers in the collection, transmission and commercial use of personal information or data. Personal data is protected from unlawful use by general statutes and by any contractual arrangement between the user and the service provider.

Since spring of 2005, the National People's Congress and the State Council have begun legislative review of a draft Law for Protection of Personal Information which provides a wider scope of information protection than that required to protect the personal privacy of a citizen. Cellular phone number, home address, medical files and occupational information will all be protected under the draft law. The draft further provides that usage of such personal information by service providers (excluding the national security authority, research institutions, and news agency) shall be subject to the prior authorization of each individual and violation under this law could result in administrative, civil, and even criminal liabilities. If regulations are adopted addressing the collection, transmission and commercial use of personal information or data, we could be subject to these penalties, aspects of our business plan could no longer be viable and our business would thus be adversely affected.

***Potential additional Chinese regulation could affect our business in China.***

The Ministry of Information Industry, the Chinese governmental agency that regulates the Internet in China, promulgated a directive effective January 31, 2008, providing that online videos can only be broadcast or streamed by state-owned or controlled companies. Subsequently, the Ministry of Information Industry acted to provide exceptions for certain non-state-owned or controlled companies. While it is possible that our Chinese website would not be permitted to display online videos, which could have a material effect on the content provided on such website, it is not yet clear what, if any, effect this regulation has upon our business in China.

***Political and economic policies of the PRC government could affect our business.***

A significant portion of our business, assets and operations are located in China and a significant portion of our future revenues are expected to be derived from our operations in China. Accordingly, our business could be adversely affected by changes in political, economic or social conditions in China, adjustments in PRC government policies or changes in laws and regulations.

The economy of China differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development in a number of respects, including:

- structure;
- level of government involvement;
- level of development;
- level of capital reinvestment;
- growth rate;
- control of foreign exchange; and
- methods of allocating resources.

Since 1949, China has been primarily a planned economy subject to a system of macroeconomic management. Although the Chinese government still owns a significant portion of the productive assets in China, economic reform policies since the late 1970s have emphasized decentralization, autonomous enterprises and the utilization of market mechanisms. We cannot predict what effects the economic reform and macroeconomic measures adopted by the Chinese government may have on our business or results of operations.

***The PRC legal system embodies uncertainties which could limit the legal protections available to us.***

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. We are subject to laws and regulations applicable to foreign investment in mainland China. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and other foreign investors. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the Internet, our ownership structure and currency exchange, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

***It may be difficult to enforce any civil judgments against us or our board of directors or officers, because in the future a significant portion of our assets could be located outside of the United States.***

Although the combined company is incorporated in the State of Delaware, in the future a substantial portion of our assets could be located in Brazil and the PRC. As a result, it may be difficult for investors to enforce outside the United States any actions brought against us in the United States, including actions predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. In addition, certain of our directors and officers and all or a substantial portion of their assets may be located outside the United States (principally in Brazil and the PRC). As a result, it may not be possible for investors to effect service of process within the United States upon those directors and officers, or to enforce against them or us judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. There is doubt as to the enforceability in Brazil and the PRC, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States or the securities laws of any state of the United States.

***If we are not able to attract and retain key management and consultants, we may not successfully integrate the contributed assets into our historical business or achieve our other business objectives.***

We will depend upon our senior management and consultants for our business success. The loss of the service of any of the key members of our senior management may significantly delay or prevent the integration of the contributed assets and other business objectives. Our ability to attract and retain qualified personnel, consultants and advisors will be critical to our success. We may not be able to attract and retain these individuals, and our failure to do so would adversely affect our business.

***The concentration of our stock ownership will likely limit your ability to influence corporate matters.***

HowStuffWorks, a subsidiary of Discovery, beneficially owns a significant percentage of our outstanding common stock and entered into a stockholders agreement. The stockholders agreement entitles HowStuffWorks to designate nominees to our Board of Directors. Furthermore, Jeff Arnold, a member of the Board, is the Chief of Global Digital Strategy for Discovery, and another member of our board, Michael Cascone, is Chief Operating Officer of Discovery's Digital Media business unit which includes HowStuffWorks. As a result, Discovery has the ability to influence our management and affairs and determine the outcome of matters submitted to stockholders for approval, including the election and removal of directors, amendments to the charter, approval of equity-based employee compensation plans and any merger, consolidation or sale of all or substantially all of our assets. The interests of Discovery and its affiliates may materially conflict with the interests of other shareholders. For as long as they exert a controlling influence over our business affairs, they will have the ability to cause us to take actions that may be adverse to the interests of other shareholders or inconsistent with other shareholders' investment objectives.

***The concentration of our stock ownership, as well as our Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws, stockholders agreement and Delaware law contain provisions that may make our acquisition more difficult without the approval of our board of directors, which could discourage, delay or prevent a transaction involving our change of control.***

As of March 31, 2010, Discovery owned approximately 44% of our outstanding shares of common stock through its HowStuffWorks subsidiary. As a result, it will be difficult for our other stockholders to approve a takeover of us without the cooperation of Discovery.

Furthermore, our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws contain anti-takeover provisions, including but not limited to the following provisions:

- only our Board of Directors may call special meetings of our stockholders;
- our stockholders may take action only at a meeting of our stockholders and not by written consent;
- we have authorized undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- SEC Rule 14a-8 requires that we receive notice of stockholder proposals at least 120 days prior to the date of our proxy statement for the previous year's annual meeting or we do not have to include them in our proxy materials; and
- for stockholder proposals not requested to be included in our proxy materials under Rule 14a-8, we require advance notice of not less than 60 nor more than 90 days prior to a meeting for the proposal to be introduced and considered.

In addition, the stockholders agreement gives HowStuffWorks the right to designate nominees to our Board of Directors.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change of control of us. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to cause us to take other corporate actions you desire.

Section 203 of the Delaware General Corporation Law may also delay, defer or prevent a change in control that our stockholders might consider to be in their best interest. We are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits "business combinations" between a publicly-held Delaware corporation and an "interested stockholder," which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock for a three-year period following the date that such stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control of us that our stockholders consider to be in their best interest.

***Acquisitions, business combinations and other transactions present integration risk and may have negative consequences for our business and our stockholders.***

The process of integrating acquired businesses into our existing operations may result in unforeseen difficulties and liabilities and may require a disproportionate amount of resources and management attention. Difficulties that we encounter in integrating the operations of acquired businesses could have a material adverse effect on our results of operations and financial position. Moreover, we may not realize any of the anticipated benefits of an acquisition and integration costs may exceed anticipated amounts. We may enter into joint ventures, strategic alliances or similar arrangements with third parties. These transactions result in changes in the nature and scope of our operations and changes in our financial condition. Financing for these transactions may come from cash on hand, proceeds from the issuance of additional common stock or proceeds from debt financing.

The issuance of additional equity or debt securities could:

- cause substantial dilution of the percentage ownership of our stockholders at the time of the issuance;
- cause substantial dilution of our earnings per share;
- subject us to the risks associated with increased leverage;
- subject us to restrictive covenants that could limit our flexibility in conducting future business activities; and
- adversely affect the prevailing market price for our outstanding securities.

***We generate revenue on our international sites from advertising, and the reduction in spending by or loss of advertisers could seriously harm our business.***

The global financial crisis continues to have a negative effect on the demand for advertising in general, including online advertising. Economic uncertainty has had and might continue to have a direct impact on our revenue as orders for online advertising

have declined and our typical advertiser is spending less per order than in the prior year. We cannot predict the timing, strength or duration of the current economic slowdown or subsequent economic recovery generally or in the online advertising market. If the economy or markets in which we operate continue to worsen, our business, financial condition and results of operations will likely be materially and adversely affected. 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 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 we are unable to be competitive and provide value to our advertisers, they may stop placing ads with us, which would negatively harm our revenues and business. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Any decreases in or delays in advertising spending due to general economic conditions could reduce our revenues or negatively impact our ability to grow our revenues.

***Our investment in Sharecare's equity securities involves a substantial degree of risk.***

Our investment in Sharecare's equity securities is illiquid and might fail to appreciate and might decline in value or become worthless. Our Sharecare equity securities likely will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of Sharecare. Sharecare is a recently-formed company with no history of operations. Its prospects must be considered in light of the many risks, uncertainties, expenses, delays and difficulties encountered by companies in their early stages of development. Moreover, Sharecare operates in the highly competitive internet industry and might not achieve profitability or consumer acceptance in the near-term, if ever.

Even if Sharecare is successful, our ability to realize the value of our investment might be limited. Because it is a private company, there is no public market for Sharecare's securities, and the Sharecare securities are subject to restrictions on resale that might prevent us from selling these securities during periods in which it would be advantageous to do so. As a result, we might have to wait for a liquidity event, such as a public offering or the sale of Sharecare, to realize the value of our investment, if any. It is likely to take a significant amount of time before a liquidity event occurs.

Sharecare may need to raise additional capital, and our equity position in Sharecare may be diluted if Sharecare issues additional equity, options, or warrants. If Sharecare makes a capital call of its existing equity holders, our position may be diluted if we choose not to contribute additional capital.

***Two of our stockholders also have substantial Sharecare investments, and potential conflicts of interests could harm us.***

Jeff Arnold, a member of the Board of Directors, and Chief of Global Digital Strategy for Discovery, the parent company of HowStuffWorks, together with Discovery beneficially own over 40% of our common stock. Both Mr. Arnold and Discovery own significant interests in Sharecare and serve on the board of directors of Sharecare, and Mr. Arnold is also Chairman and Chief Architect of Sharecare. As a result, Mr. Arnold and Discovery have the ability to significantly influence and manage the affairs of both HSWI and Sharecare and determine the outcome of matters submitted for approval to stockholders of each company. If HSWI and Sharecare's interests diverge, there is a risk that Mr. Arnold or Discovery will favor actions by Sharecare that are adverse to HSWI. Additionally, as a member of our board of directors, Mr. Arnold's ownership interest in Sharecare will disqualify him from some deliberations of our board. Michael Cascone, a member of our board of directors, is Chief Operating Officer of Discovery's Digital Media business unit. As a member of our board, Mr. Cascone's position with Discovery will disqualify him from some deliberations of our board. If HSWI and Sharecare's interests diverge, there is a risk that Mr. Cascone will favor actions by Sharecare that are adverse to HSWI.

***Our new web platform services line of business may not prove to be profitable.***

We recently began a new line of business to offer web platform services to other companies. We currently have one customer for these services, Sharecare, and our agreement with Sharecare expires in June 2010. Although we believe Sharecare will renew the agreement, Sharecare may decide not to do so or we may be unable to reach agreement on terms for renewal. We intend to offer web platform services to other customers, but we have limited sales, marketing and other resources and may not be successful in obtaining those customers. Because Sharecare is a related party, the pricing and other terms included in the current agreement may not be indicative of the terms we can successfully obtain in arms-length transactions with other customers. We have limited experience in this line of business, and will be subject to competition with companies with greater resources and experience. Due to these factors, we may be unable to achieve profitability in this new line of business.

***Our services agreement with Sharecare will soon expire, and we might not be able to negotiate a new agreement on as favorable terms, if at all.***

We currently provide web development, design and management services to Sharecare under a services agreement. This agreement will expire in June 2010 unless the Company and Sharecare agree to extend the term or enter into a new services agreement. If neither occurs, Sharecare may extend the term for up to six months to transition the services performed by the Company for Sharecare to a new service provider. We are in the process of negotiating a new services agreement with Sharecare but might not be able to reach an agreement on as favorable terms as the existing services agreement, if at all. If we are unable to reach an agreement, we will lose a significant portion of our revenue.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3 . Defaults Upon Senior Securities.**

None.

**Item 4. Reserved**

**Item 5. Other Information.**

On April 30, 2010, the Company filed its definite proxy statement and announced that the 2010 Annual Meeting of Stockholders will be held on June 15, 2010. Stockholders of record as of April 30, 2010 will be entitled to vote at the meeting.

**Item 6. Exhibits.**

- Exhibit 3.1 Amended and Restated Certificate of Incorporation of HSW International, Inc. (filed as Exhibit 3.1 to the Form 10-K filed on April 15, 2010 and incorporated herein by reference).
- Exhibit 3.2 Second Amended and Restated Bylaws of HSW International, Inc. (filed as Exhibit 3.2 to the Form 8-K filed on December 18, 2007 and incorporated herein by reference).
- Exhibit 10.34\*\* Letter Agreement by and between HSW International, Inc. and Eric Orme dated October 1, 2009
- Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- Exhibit 32\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Title 18 of the United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* This exhibit is hereby furnished to the SEC as an accompanying document and is not to be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of the Section nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

\*\*Executive Compensation Arrangement pursuant to 601(b)(10)(iii)(A) of Regulation S-K

**SIGNATURE**

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.

**HSW INTERNATIONAL, INC.**

Date: May 14, 2010

By: /s/ Shawn G. Meredith

Name: Shawn G. Meredith

Title: Chief Financial Officer

October 1, 2009

Mr. Eric Orme

Dear Eric:

On behalf of HSW International, Inc. (“HSW International” or the “Company”), I am pleased to offer you employment as Chief Technology Officer of HSW International under the terms set forth below in this letter agreement (the “Letter Agreement”), commencing on October 1, 2009 (the “Commencement Date”). The terms of your employment are set forth as follows:

**1. Services and Duties.**

(a) Position. You will serve as Chief Technology Officer of HSW International, and shall perform all duties consistent with that position and such duties as shall be reasonably prescribed from time to time by the Company.

(b) Devotion of Time. During the term of this Letter Agreement, you agree to devote your full attention, energies and best efforts to rendering services on behalf of HSW International (or its parent, subsidiaries or other affiliates if directed to do so by the Company). You shall not engage in any outside employment without the express written consent of the Company. Notwithstanding the above, you shall be permitted, to the extent such activities do not substantially interfere with the performance of your duties and responsibilities hereunder to (i) manage your personal, financial and legal affairs, (ii) serve on civic or charitable boards or committees (it being expressly understood and agreed that your continuing to serve on any such board and/or committees on which you are serving, or with which you are otherwise associated, as of the Commencement Date, shall be deemed not to interfere with the performance of your duties and responsibilities under this Letter Agreement); and, (iii) investing or trading in stocks, bonds, commodities or other forms of investment, including real property.

**2. Term .**

This term of this Letter Agreement shall begin on the Commencement Date and, unless earlier terminated as provided herein, shall end on the third anniversary of the Commencement Date (the “Term”). Thereafter, this Letter Agreement shall terminate, and, unless either party shall elect in writing not to continue your employment with the Company, you shall become an at-will employee of the Company.

**3. Compensation and Related Matters .**

(a) Base Salary. Your starting salary upon the Commencement Date will be \$18,750 per month (\$225,000 annually) through December 31, 2009, and then

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will increase to \$20,833.33 per month (\$250,000 annually) (the “Base Salary”). The Base Salary will be paid to you (minus applicable federal, state and local payroll taxes, and other withholdings required by law or authorized by you) in accordance with HSW International’s normal payroll practices. The Compensation Committee of the Board will review your Base Salary compensation for any discretionary merit-based increases on January 1, 2011, and January 1, 2012.

(b) Bonus Compensation. In addition to the Base Salary, you will be eligible for an annual discretionary bonus to be determined by the Board based on performance criteria of you and the Company to be discussed with and communicated to you within sixty days by the Compensation Committee of the Board (“Bonus Plan”).

(c) Expenses. During your employment hereunder, you shall be entitled to receive prompt reimbursement for all reasonable business and entertainment expenses incurred by you in performing services hereunder, provided that you properly account therefor to the Company. All such reimbursements shall be subject to HSW International’s policies and procedures.

(d) Other Benefits. Beginning on the Commencement Date, you shall be entitled to participate in other benefit plans to which you are eligible pursuant to Company policy, which may be amended from time to time in the Company’s discretion, and the applicable plan documents (the “Standard Benefit Plans”). Such shall include medical and health benefit plans consistent with those granted other executives in the Company.

(e) Vacations. You shall be entitled to four weeks of paid vacation per year in accordance with HSW International’s policies and procedures.

(f) Stock Options. HSW International will grant to you options to acquire 225,000 shares of HSW International’s common stock (the “Options”) in accordance with the Company’s 2006 Equity Incentive Plan (the “Incentive Plan”). The Options represent the entirety of the stock-based compensation that you will receive during the Term. You acknowledge that the grant date for the Options is anticipated to be approximately one week following the Company’s public disclosure of its anticipated entrance into a transaction agreement with ShareCare, Inc. Unless otherwise defined herein, capitalized terms used in this sub-Section have the meanings assigned such terms in the Incentive Plan. The Award Agreement will reflect HSW International’s standard terms and conditions for stock option grants except as follows:

(i) The Options shall have an exercise price equal to 100% of the Fair Market Value on the date of the Award.

(ii) Twenty-five thousand shares of the Options shall become immediately vested upon the Commencement date, and 1/36<sup>th</sup> of the remainder shall become fully vested on each monthly anniversary of the Commencement Date for the Term. Except as provided elsewhere in this Letter Agreement, vesting shall occur at the times indicated only if you

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remain an employee of the Company and this Letter Agreement is then in effect.

(iii) If either party should terminate your employment and this Letter Agreement for any reason, then all un-vested Options shall terminate with such termination.

(iv) The term of the Option will be ten years from the date of the Award Agreement (“Option Term”).

(v) Options that are vested shall be irrevocable and may be exercised in whole or in part, by you, your heirs or estate, for the full remaining Option Term so long as you remain an employee of the Company. Otherwise, all Options held by you shall terminate and no longer be exercisable one year from the termination of your employment with HSW International for any reason.

(vi) If a Change in Control (as defined below) should occur during the Term, then all un-vested Options shall become fully vested as of the date of said Change in Control. “Change of Control” means any of the following: (a) a merger or consolidation of HSW International into or with any other person or persons, or a transfer of equity interests in a single transaction or a related series of transactions, in which in any case the equity holders of HSW International immediately prior to such merger, consolidation, sale, exchange, conveyance or other disposition or first of such series of transactions possess less than a majority of the voting power of Employer’s or any successor entity’s issued and outstanding equity securities immediately after such transaction or series of such transactions; or (b) a single transaction or related series of transactions, pursuant to which a person or persons acquire all or substantially all of HSW International’s assets determined on a consolidated basis.

#### **4. Termination .**

During the Term, your employment hereunder may be terminated by HSW International or by you under the following circumstances:

(a) Mutual Agreement. Your employment may be terminated by mutual written agreement between you and the Company.

(b) Death. Your employment shall terminate immediately upon your death.

(c) Disability. The Company may terminate your employment if you are unable to perform the essential functions of your job under this Letter Agreement due to a physical or mental impairment (“Disability”). However, under no circumstances will the Company terminate your employment pursuant to its rights in this subsection provided that such Disability does not continue past 120 days from the point the Company notifies you in writing of your Disability.

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(d) Cause. Your employment may be terminated immediately for Cause. "Cause" means the occurrence or existence of any of the following with respect to you, as determined in good faith by the Board (with your abstaining if then a member of the Board):

- (i) any act of dishonesty resulting in a materially adverse effect upon the Company or material misappropriation, embezzlement, fraud or similar conduct involving HSW International or any affiliate;
- (ii) the conviction or a plea of nolo contendere, guilty or the equivalent with respect to a felony charge or crime involving moral turpitude or dishonesty;
- (iii) any intentional damage by you of a material nature to any property of HSW International or any affiliate;
- (iv) conduct by you which constitutes gross negligence in serving in your capacity as an employee of the Company or any affiliate which includes, but is not limited to, the disclosing of trade secrets or confidential information of the Company or any affiliate to persons not entitled to receive such information;
- (v) any breach of any non-competition or non-solicitation agreement between you and HSW International or any affiliate;
- (vi) any material breach by you of any material obligation under this Letter Agreement, or fiduciary duties to HSW International or any affiliate which is not cured by you within 30 days of receipt of written notice specifying such breach; or
- (vii) the engaging by you in employment practices which violate federal, state or local law.

(e) Termination Without Cause. Notwithstanding any provisions of this Letter Agreement to the contrary, prior to the expiration of the Term, HSW International may terminate your employment for any reason other than those specified in the foregoing paragraphs (a), (b), (c) or (d) (or for no reason) at any time effective upon delivery of 30 days written notice by the Board, provided that the Company may at its election provide continued Base Salary payments and medical and health benefits for all or a portion of such thirty (30) day period in lieu of such notice.

(f) Termination by You with Notice. You may terminate your employment (resign) at any time effective upon 30 days written notice to the Board, provided that the Company may at its election provide continued Base Salary payments and medical and health benefits for all or a portion of such thirty (30) day period in lieu of such notice.

(g) Expiration at End of Term. The Employer may permit this Letter Agreement to expire, by its terms, upon the giving of written notice thereof to Executive at least 90 days prior to the expiration of the Term.

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## 5. Compensation and Payments Upon Termination .

You will be entitled to the following compensation from HSW International (in lieu of all other sums payable to you hereunder) upon the termination of your employment.

(a) Mutual Agreement. If your employment is terminated as a result of mutual agreement, HSW International shall pay your Base Salary, plus all accrued, earned and unused benefits under the Standard Benefit Plans, in each case, through the date of termination, plus the amount actually earned under any Bonus Plan (i.e., prorated for any year less than a full calendar year) as of the date of your termination, and you will be entitled to receive any vested pension and retirement benefits (for all purposes of this Letter Agreement, all such accrued, earned and unpaid items through the applicable date of termination (minus applicable federal, state and local payroll taxes, and other withholdings required by law or authorized by you) are referred to as the "Earned Amounts").

(b) Death. If your employment is terminated as a result of death, HSW International will pay to your estate the Earned Amounts and shall have no further obligations to you or your heirs or estate.

(c) Disability. If your employment is terminated as a result of Disability, you will be provided long term disability benefits to which you may be eligible (if any), in accordance with HSW International's then existing Standard Benefit Plans and HSW International shall pay to you the Earned Amounts and shall have no further obligations to you.

(d) Cause. If your employment is terminated for Cause, HSW International shall pay to you the Earned Amounts and shall have no further obligations to you.

(e) Termination Without Cause. If HSW International shall elect to terminate your employment for a reason other than those described in (a), (b), (c), (d) or (g) of Section 4 of this Letter Agreement (or for no reason), then, HSW International shall pay to you the following and shall have no further obligations to you:

(i) the Earned Amounts; plus,

(ii) your Base Salary and medical and health benefits in effect as of the date of termination for a period of: (A) twelve months from the date of termination if such occurred prior to October 1, 2010; (B) nine months from the date of termination if such occurred between October 1, 2010, and September 30, 2011; or (C) six months from the date of termination if such occurred between October 1, 2011 and the end of the Term, such period not to extend beyond the original end of the Term; each, payable (minus applicable federal, state and local payroll taxes, and

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other withholdings required by law or authorized by you) as if you remained an active employee of the Company (the “Severance Payment”); provided, however, no Severance Payment shall be payable under this Subsection 5(e)(ii) unless you execute and deliver to the Company, in a form acceptable to the Company and its counsel, a general release of claims against the Company (the “Release”), which Release is not revoked by you within any time period allowed for revocation under applicable law. Such Release must be signed by you and any revocation period must have expired within sixty (60) days after the effective date of your termination of employment.

(f) Termination by You with Notice. In the event that you terminate your employment (resign), HSW International shall pay to you the Earned Amounts and shall have no further obligations to you.

(g) Expiration at End of Term. In the event HSW International elects to permit this Letter Agreement to expire by its own terms, pursuant to the provisions of Section 4(g), HSW International will pay to you the Earned Amounts through the end of the Term and shall have no further obligations to you.

## **6. Non-Disclosure .**

(a) Proprietary Information. By virtue of your employment with HSW International, you will have access to confidential, proprietary, and highly sensitive information relating to the business of the Company and which is a competitive asset of the Company (“Proprietary Information”). Such Proprietary Information includes all information that relates to the business of the Company, which is or has been disclosed to you orally or in writing by the Company or obtained by virtue of work performed for the Company, is or was developed by the Company, and is not generally available to or known by individuals or entities within the industry in which the Company is or may become engaged or readily accessible by independent investigation. The Proprietary Information sought to be protected includes, without limitation, information pertaining to: (i) the identities of customers and clients with which or whom the Company does or seeks to do business, as well as the point of contact persons and decision-makers at these customers and clients, including their names, addresses, e-mail addresses and positions; (ii) the past or present purchasing history and the past and/or current job requirements of each past and/or existing customer and client; (iii) the volume of business and the nature of the business relationship between the Company and its customers and clients; (iv) the pricing of the Company’s products or services, including any deviations from its standard pricing for particular customers and clients; (v) the Company’s business plans and strategy; (vi) information regarding the Company’s employees, including their identities, skills, talents, knowledge, experience, and compensation; (vii) the Company’s financial results and business condition; and (viii) computer programs and software developed by the Company and tailored to the Company’s needs by its employees, independent contractors, or vendors; (ix) information relating to the Company’s vendors or other key suppliers; (x) any past or present merchandise or supply sources in the future; (xi) system

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designs, procedure manuals, automated data programs, reports, personnel procedures, and supply and service resources. Proprietary Information may be contained on HSW International's computer network, in computerized documents or files, or in any written or printed documents, including any written reports summarizing such information.

(b) Non-Disclosure of Proprietary Information. You acknowledge that HSW International's Proprietary Information will be disclosed to you throughout your employment at the Company in order to enable you to perform your duties for the Company. Finally, you acknowledge that the unauthorized disclosure of Proprietary Information could place the Company at a competitive disadvantage. Consequently, during your employment and for a period of two (2) years thereafter, you agree not to use, publish, disclose or divulge, directly or indirectly, any Proprietary Information except in the performance of your duties to the Company. You further agree not to make un-authorized copies of any Proprietary Information during your employment.

(c) Survival of Your Obligations. You understand and agree that your obligations under this Section shall survive the termination of this Letter Agreement and/or your employment with HSW International for a period of two years, except for Proprietary Information that constitutes trade secrets in which case the obligations of confidentiality shall continue in perpetuity. You further understand and agree that your obligations under this Section are in addition to, and not in limitation or preemption of, all other obligations of confidentiality which you have to HSW International under general legal or equitable principles, or other policies implemented by the Company.

#### **7. Return of Company Property .**

You acknowledge that all memoranda, notes, correspondence, databases, computer discs, computer files, computer equipment and/or accessories, pagers, telephones, passwords or pass codes, records, reports, manuals, books, papers, letters, CD-ROM diskettes, keys, Internet database access codes, client profile data, job orders, client and customer lists, contracts, software programs (including source code), information and records, drafts of instructions, guides and manuals, and other documentation (whether in draft or final form), and other sales, financial or technological information relating to the Company's business, and any and all other documents containing Proprietary Information furnished to you by any representative of the Company or otherwise acquired or developed by you in connection with your association with the Company (collectively, "Recipient Materials") shall at all times be the property of the Company. Within forty-eight (48) hours of the termination of your employment for any reason, you will return to the Company any Recipient Materials (inclusive of any copies) that are in your possession, custody or control.

#### **8. Non-Compete and Non-Solicitation of Customers/Clients .**

(a) Access to Proprietary Information. You acknowledge that the special relationship of trust and confidence between you, HSW International, and its clients and customers creates a high risk and opportunity for the misappropriation of the

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relationship and goodwill existing between HSW International and its clients and customers. You further acknowledge and agree that it is fair and reasonable for HSW International to take steps to protect itself from the risk of such misappropriation. You further acknowledge that, at the outset of your employment with HSW International and/or throughout your employment with the Company, you have been or will be provided with access to and informed of HSW International's Proprietary Information, which will enable you to benefit from the Company's goodwill and know-how.

(b) Inevitable Disclosure. You acknowledge that it would be inevitable in the performance of your duties as a director, officer, employee, investor, agent or executive of any person, association, entity, or company which competes with HSW International to disclose and/or use HSW International's Proprietary Information, as well as to misappropriate HSW International's goodwill and know-how, to or for the benefit of such other person, association, entity, or company. You also acknowledge that, in exchange for the execution of the non-solicitation restriction set forth in Section 8(c), you have received substantial, valuable consideration. You further acknowledge and agree that this consideration constitutes fair and adequate consideration for the execution of the non-solicitation restriction set forth in this Section 8.

(c) Covenant Not to Compete. You agree that during your employment with HSW International and, if terminated, for a period following employment that continues so long as (i) Severance Payment is being made, or (ii) you hold any vested, unexercised Options that have not been terminated (the "Restrictive Period"), you shall not, without the prior written consent of the Board, directly or indirectly, on your own behalf or in the service of or on behalf of others, within the Territory, perform the same or substantially the same duties you performed for HSW International, on behalf of any business that competes with HSW International. You and the Company acknowledge that the business of the Company is very broad in scope and that your duties are equally broad in scope because you are the CTO with overall technology responsibility for the entire business. Consequently, "Territory" means the United States of America, China and Brazil. The Restrictive Period shall not apply during any time following termination of your employment when no Severance Payment is being made and none of the Options have an exercise price higher than the volume weighted average price of the Company's common stock over the five most recent trading days.

(d) Non-Solicitation of Customers. Ancillary to the enforceable promises set forth in this Letter Agreement as well as to protect the vital interests described in this Letter Agreement, you agree that, while you are employed by HSW International and during the Restrictive Period, you will not, without the prior written consent of HSW

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International, directly or indirectly, solicit any customer for the purpose of providing products or services that compete with products and services provided by the HSW International. This restriction is limited to customers with whom you had material contact during your employment for the purpose of performing your job duties at the Company. You also agree that, while you are employed by HSW International and for twelve months thereafter, you will not, without the prior written consent of HSW International, directly or indirectly, solicit any business partner of HSW International for the purpose of enticing that business partner to alter, limit or terminate its relationship with HSW International. This restriction is limited to business partners with whom you had material contact during your employment for the purpose of performing your job duties at the Company.

(e) Reasonable Restrictions. You agree that the restrictions set forth above are ancillary to an otherwise enforceable agreement, are supported by independent valuable consideration, and that the limitations as to time, geographical area, and scope of activity to be restrained by this Section 8 are reasonable and acceptable, and do not impose any greater restraint than is reasonably necessary to protect the goodwill and other business interests of HSW International. You agree that if, at some later date, a court of competent jurisdiction determines that the non-competition and/or the non-solicitation provisions set forth in this Section 8 do not meet the criteria set forth in applicable law, this Section 8 may be reformed by the court and enforced to the maximum extent permitted under applicable law.

(f) Breach. If you are found to have violated any of the provisions of this Section 8, you agree that the restrictive period of each covenant so violated shall be extended by a period of time equal to the period of such violation by him. You understand that your obligations under this Section 8 shall survive the termination of your employment with the Company and shall not be assignable by you.

#### **9. Non-Solicitation of Employees and Executives .**

You acknowledge that, as part of your employment or association with HSW International, you will become familiar with the salary, pay scale, capabilities, experiences, skill and desires of the Company's employees. In order to protect the confidentiality of such information, as well as HSW International's investment in and relationships with such employees, you agree that, for a period of 12 months following the termination of your employment with HSW International, whether such termination occurs at the insistence of you or the Company, you shall not directly or indirectly recruit or solicit employees of HSW International with whom you had contact for the purpose of performing your job duties. This restriction is limited to recruiting or soliciting for the purpose of enticing the employee to end his or her relationship with HSW International. Your obligations under this Section 9 shall survive the termination of this Letter Agreement and your employment with HSW International.

#### **10. Remedies .**

You hereby acknowledge and agree that in the event that you violate any of the provisions set forth in Sections 6, 7, 8, or 9 of this Letter Agreement, HSW International will suffer immediate and irreparable harm which cannot be accurately calculated in monetary damages. Consequently, you acknowledge and agree that the Company shall – without limitation to or waiver of any other relief available to the Company – be entitled

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to immediate injunctive relief, either by temporary or permanent injunction, to prevent such a violation.

**11. Notification of Prospective Employment .**

Prior to accepting employment or an association with any third party which is engaged in a business competitive to the business conducted by HSW International or which, because of the nature of your proposed or potential position with the third party, may require you to use or disclose the Company's Proprietary Information, you agree to notify such third party that you are bound by the terms of this Letter Agreement. You also agree that the Company may, at any time while any of the non-disclosure or non-solicitation covenants contained in this Letter Agreement are in force, provide notice of the existence of this Letter Agreement to any third party with whom or which you propose to negotiate or are negotiating concerning employment or an association or to accept employment, or with whom or which you have accepted employment or an association, without any liability to you for any such notice.

**12. Inventions, Ideas/Patentable Inventions .**

You agree to disclose, fully and promptly, and only to HSW International, all ideas, methods, plans, improvements or patentable inventions of any kind which are made or discovered, in whole or in part, by you during the performance of your job duties; that result from any aid, support, or assistance by HSW International; or that are created during your work time with HSW International. In connection with any invention, discovery, concept or idea subject to the foregoing Sections, you will promptly execute a specific assignment of any title, shop-right or license to the Company, and, if requested to do so, will cooperate fully with the Company to secure a patent, shop-right, or license therefor in the United States and/or foreign countries. However, nothing in this Letter Agreement shall require any assignment otherwise prohibited by law. You further agree that any and all work product created or performed by you while you are working with or on behalf of the Company, is a "work for hire" under the terms of the United States Copyright Act, and shall be and remain the exclusive property of the Company. You hereby assign any and all rights, title, and ownership interests that you may now have or hereafter acquire in or to such work product to HSW International. In the event the Company is unable for any reason, after reasonable effort, to secure your signature on any document needed in connection with the actions specified in the preceding paragraph, you hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as your agent and attorney in fact, which appointment is coupled with an interest, to act for and in your behalf to execute, verify and file any such documents and to do all other lawfully permitted acts to further the purposes of the preceding paragraph with the same legal force and effect as if executed by you. You hereby waive and quitclaim to the Company any and all claims, of any nature whatsoever, which you now or may hereafter have for infringement of any invention, discovery, concept or idea assigned hereunder to the Company.

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**13. No Conflicting Obligations.**

You hereby represent that, except as you have disclosed in writing to the Company, you are not bound by the terms of any agreement with any other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of your employment with the Company or to refrain from competing, directly or indirectly, with the business of such previous employer or any other party. You hereby further represent that, to the best of your knowledge, your performance of all the terms of this Letter Agreement and as an employee of the Company does not and shall not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by you in confidence or in trust prior to your employment with the Company, and you will not knowingly disclose to the Company or induce the Company to use any confidential or proprietary information or material belonging to any third party.

**14. Successors; Binding Agreement .**

This Letter Agreement shall be binding upon, and insure to the benefit of, HSW International, you, and their respective successors, assigns, personal and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable. Without limiting the generality of the foregoing, HSW International may assign this Letter Agreement to any successor of HSW International (or the same may remain with HSW International as a subsidiary of a larger institution), without your consent, with such assignee being required to perform the Company's obligations hereunder.

**15. Complete Agreement; Survival .**

This Letter Agreement sets forth the entire agreement among HSW International and you concerning the subject matter hereof, and supersedes all prior written or oral understandings of the parties. Sections 6, 7, 8, 9, 10 11 and 12 of this Letter Agreement shall survive the termination of Employee's employment regardless of the party terminating the employment and regardless of the manner of such termination.

**16. Notice .**

For purposes of this Letter Agreement, notices and all other communications provided for shall be in writing and shall be deemed to have been duly given when (i) delivered personally; (ii) sent by telecopy or similar electronic device and confirmed; (iii) delivered by overnight express; or (iv) sent by registered or certified mail, postage prepaid, addressed as follows:

If to you:

Eric Orme

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If to HSW International:

HSW International, Inc.  
3350 Peachtree Road  
One Capital City Plaza, Suite 1600  
Atlanta, GA 30326  
Attention: General Counsel

or to such other address as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

**17. Taxes.**

The Company shall withhold such amounts from any compensation or other benefits payable to you under this Letter Agreement on account of payroll and other taxes as may be required by applicable law or regulation of any governmental authority. You hereby acknowledge and agree that you are responsible for the review with your own personal tax advisors the federal, state, local and foreign (if applicable) tax consequences of any grant or transactions contemplated by this Letter Agreement and you are relying solely on such advisors and not on any statements or representations of the Company or any of its agents with respect to any such tax consequences. You (and not the Company) shall be responsible for your own tax liability that may arise as a result of any grants or transactions contemplated by this Letter Agreement.

**18. Miscellaneous .**

No provision of this Letter Agreement may be modified, waived, or discharged unless such waiver, modification, or discharge is agreed to in writing signed by you and the Company. No waiver by either party hereto of, or compliance with, any condition or provision of this Letter Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Letter Agreement.

**19. Governing Law .**

This Letter Agreement is being made and is intended to be performed in the State of Georgia, and shall be governed, construed, interpreted, and enforced in accordance with the substantive laws of the State of Georgia.

**20. Counterparts .**

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This Letter Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same agreement.

**21. Voluntary Agreement .**

The parties acknowledge that each has had an opportunity to consult with an attorney or other counselor concerning the meaning, import, and legal significance of this Letter Agreement, and each has read this Letter Agreement, as signified by their respective signatures hereto, and each is voluntarily executing the same after, if sought, advice of counsel for the purposes and consideration herein expressed.

[ *signatures follow on next page* ]

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To accept this offer, please sign and date this Letter Agreement in the space provided below and return it to me no later than October 1, 2009. A second copy of the document has been provided for you to keep for your records.

Sincerely,

/s/ HSW International, Inc.  
HSW International, Inc.

I accept this offer of employment with HSW International, Inc. and agree to the terms and conditions outlined in this letter.

/s/ Eric Orme

October 1, 2009

By: Eric Orme

*Date*

**Certification pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gregory M. Swayne, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HSW International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2010

/s/ Gregory M. Swayne

Gregory M. Swayne  
Chief Executive Officer

A signed original of this written statement required by Section 302, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 302, has been provided to HSW International and will be retained by HSW International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Shawn G. Meredith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HSW International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2010

/s/ Shawn G. Meredith  
Shawn G. Meredith  
Chief Financial Officer

A signed original of this written statement required by Section 302, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 302, has been provided to HSW International and will be retained by HSW International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification pursuant to Title 18 of the United States Code Section 1350,  
as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, each of the undersigned officers of HSW International, Inc. (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the period presented in the Report.

May 14, 2010

May 14, 2010

By: /s/ Gregory M. Swayne  
Gregory M. Swayne  
Chief Executive Officer

By: /s/ Shawn G. Meredith  
Shawn G. Meredith  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act") or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to HSW International, Inc. and will be retained by HSW International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.