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LOOKSMART LTD

FORM 10-Q
(Quarterly Report)

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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2012

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: 000-26357

LOOKSMART, LTD .
(Exact Name of Registrant as Specified in its Charter)

Delaware	**13-3904355**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

55 Second Street
San Francisco, California 94105
(415) 348-7000
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $0.001 per share

Securities registered pursuant to Section 12(g) of the Act:
None

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	☒

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

As of May 2, 2012 there were 17,293,237 shares of the registrant's common stock outstanding, par value $0.001 per share.

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PART I

ITEM 1. FINANCIAL STATEMENTS

LOOKSMART, LTD.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	March 31, 2012	December 31, 2011
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 15,245	$ 17,950
Short-term investments	7,367	6,809
Total cash, cash equivalents and short-term investments	22,612	24,759
Trade accounts receivable, net	1,408	1,588
Prepaid expenses and other current assets	535	604
Total current assets	24,555	26,951
Property and equipment, net	1,604	1,941
Capitalized software and other assets, net	1,283	1,220
Total assets	$ 27,442	$ 30,112
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 1,170	$ 1,682
Accrued liabilities	978	895
Deferred revenue and customer deposits	1,137	1,143
Current portion of capital lease obligations	481	515
Total current liabilities	3,766	4,235
Capital lease and other obligations, net of current portion	149	296
Total liabilities	3,915	4,531
Commitment and contingencies		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; Authorized: 5,000 shares at March 31, 2012 and December 31, 2011; Issued and Outstanding: none at March 31, 2012 and December 31, 2011	-	-
Common stock, $0.001 par value; Authorized: 80,000 shares; Issued and Outstanding: 17,293 shares and 17,288 shares at March 31, 2012 and December 31, 2011, respectively	17	17
Additional paid-in capital	262,278	262,201
Accumulated other comprehensive loss	(5)	(24)
Accumulated deficit	(238,763)	(236,613)
Total stockholders' equity	23,527	25,581
Total liabilities and stockholders' equity	$ 27,442	$ 30,112

The accompanying Notes are an integral part of these Unaudited Consolidated Financial Statements.

LOOKSMART, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Revenue	$ 4,013	$ 8,389
Cost of revenue	2,215	4,655
Gross profit	1,798	3,734
Operating expenses:		
Sales and marketing	706	610
Product development and technical operations	1,788	1,597
General and administrative	1,461	1,421
Restructuring charge	-	889
Total operating expenses	3,955	4,517
Loss from operations	(2,157)	(783)
Non-operating income (expense), net		
Interest income	20	23
Interest expense	(12)	(29)
Other expense, net	(1)	(7)
Loss from operations before income taxes	(2,150)	(796)
Income tax benefit	-	1
Net loss	$ (2,150)	$ (795)
Net loss per share - Basic and Diluted	$ (0.12)	$ (0.05)
Weighted average shares outstanding used in computing basic and diluted net loss per share	17,293	17,235

The accompanying Notes are an integral part of these Unaudited Consolidated Financial Statements.

LOOKSMART, LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Net loss	$ (2,150)	$ (795)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(10)	-
Unrealized gain on marketable securities, net	29	11
Change in accumulated other comprehensive income (loss)	19	11
Comprehensive loss	$ (2,131)	$ (784)

The accompanying Notes are an integral part of these Unaudited Consolidated Financial Statements.

LOOKSMART, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	$ (2,150)	$ (795)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	589	715
Provision for doubtful accounts	249	38
Share-based compensation	67	75
Loss from sale of assets and other non-cash charges	34	31
Deferred rent	(5)	-
Changes in operating assets and liabilities:		
Trade accounts receivable	(69)	(461)
Prepaid expenses and other current assets	85	(178)
Trade accounts payable	(512)	(575)
Accrued liabilities	83	259
Deferred revenue and customer deposits	(6)	(15)
Net cash used in operating activities	(1,635)	(906)
Cash flows from investing activities:		
Purchase of investments	(3,522)	(4,889)
Proceeds from sale of investments	2,949	2,499
Payments for property, equipment, and capitalized software	(333)	(428)
Proceeds from contingent purchase consideration of certain consumer assets	-	91
Net cash used in investing activities	(906)	(2,727)
Cash flows from financing activities:		
Principal payments of capital lease obligations	(176)	(300)
Proceeds from issuance of common stock	8	60
Net cash used in financing activities	(168)	(240)
Effect of exchange rate changes on cash and cash equivalents	4	-
Decrease in cash and cash equivalents	(2,705)	(3,873)
Cash and cash equivalents, beginning of period	17,950	22,119
Cash and cash equivalents, end of period	$ 15,245	$ 18,246
Supplemental disclosure of noncash activities:		
Property and equipment received and liability accrued	$ -	$ 53
Change in unrealized loss on investments	$ 29	$ 11
Share-based compensation capitalized as software development costs	$ 2	$ 10

The accompanying Notes are an integral part of these Unaudited Consolidated Financial Statements.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Business

LookSmart, Ltd. ("LookSmart" or the "Company") is a search advertising network solutions company that provides relevant solutions for search advertisers and publishers. LookSmart was organized in 1996 and is incorporated in the State of Delaware.

LookSmart operates in a large online search advertising ecosystem serving ads that target user queries on partner sites. We operate in the middle of this ecosystem, acquiring search queries from a variety of sources and matching them with the keywords of our search advertising customers. Our search advertising customers are generally of three types; Intermediaries, Direct Advertisers and Self-Service Advertisers. Intermediaries purchase clicks to sell into the affiliate networks of the large search engine providers. Direct Advertisers and their agencies purchase clicks with the assistance of LookSmart account managers to achieve conversions or sales from the clicks or to obtain unique page views. Self-Service Advertisers are small Direct Advertisers that sign-up online, pay by credit card and manage their account with minimal LookSmart account management assistance.

LookSmart offers search advertising customers targeted search via a monitored search advertising distribution network using the Company's "AdCenter" platform technology. The Company's search advertising network includes publishers and search advertising customers, including Intermediaries and direct advertising customers and their agencies as well as self-service customers in the United States and certain other countries. The Company's application programming interface ("API") allows search advertising customers and their advertising agencies to connect any type of marketing or reporting software with minimal effort, for easier access, management, and optimization of search advertising campaigns.

LookSmart also offers publishers licensed private-label search advertiser network solutions based on its AdCenter platform technology ("Publisher Solutions"). Publisher Solutions consist of hosted auction-based ad serving with an ad backfill capability that allows publishers and portals to manage their advertiser relationships, distribution channels and accounts.

Principles of Consolidation

The Unaudited Consolidated Financial Statements as of March 31, 2012 and December 31, 2011, and for the three months ended March 31, 2012 and 2011, include the accounts of the Company and its subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying Unaudited Consolidated Financial Statements as of March 31, 2012, and for the three months ended March 31, 2012 and 2011, reflect all adjustments that are normal and recurring in nature and, in the opinion of management, are necessary for a fair representation of the Company's financial position as of March 31, 2012 and the results of operations for the periods shown. These Unaudited Consolidated Financial Statements should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011("Annual Report"). The Unaudited Consolidated Balance Sheet as of December 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The results of operations for the interim period ended March 31, 2012 is not necessarily indicative of results to be expected for the full year.

Use of Estimates and Assumptions

The Unaudited Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue, expenses, and contingent assets and liabilities during the reporting period. The Company bases its estimates on various factors and information which may include, but are not limited to, history and prior experience, experience of other enterprises in the same industry, new related events, and current economic conditions and information from third party professionals that is believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. In management's opinion, all adjustments necessary for a fair statement are reflected in the interim periods presented.

Reclassifications

Certain amounts in the financial statements for the prior periods have been reclassified to conform to the current presentation. These reclassifications did not change the previously reported net loss, net change in cash and cash equivalents or stockholders' equity.

Investments

The Company invests its excess cash primarily in debt instruments of high-quality corporate and government issuers. All highly liquid instruments with maturities at the date of purchase greater than ninety days are considered investments. Such securities are classified as short-

term investments. These securities are classified as available-for-sale and carried at fair value.

Changes in the value of these investments are primarily related to changes in interest rates and are considered to be temporary in nature. Except for declines in fair value that are not considered temporary, net unrealized gains or losses on these investments are reported as a component of Other Comprehensive Loss in the Unaudited Consolidated Statements of Comprehensive Loss. The Company recognizes realized gains and losses upon sale of investments using the specific identification method.

Fair Value of Financial Instruments

The Company's estimate of fair value for assets and liabilities is based on a framework that establishes a hierarchy of the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect our significant market assumptions. The three levels of the hierarchy are as follows:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets that we have the ability to access.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, default rates, etc.) or can be corroborated by observable market data.

Level 3: Valuations based on models where significant inputs are not observable. The unobservable inputs reflect our assumptions about the assumptions that market participants would use.

Revenue Recognition

Our online search advertising revenue is primarily composed of per-click fees that we charge customers. The per-click fee charged for keyword-targeted listings is calculated based on the results of online bidding for keywords or page content, up to a maximum cost per keyword or page content set by the customer. Revenue also includes revenue share from licensing of private-labeled versions of our AdCenter Platform.

Revenues associated with online advertising products, including Advertiser Networks, are generally recognized once collectability is established, delivery of services has occurred, all performance obligations have been satisfied, and no refund obligations exist. We pay distribution network partners based on clicks on the advertiser's ad that are displayed on the websites of these distribution network partners. These payments are called traffic acquisition costs ("TAC") and are included in cost of revenue. The revenue derived from these arrangements that involve traffic supplied by distribution network partners is reported gross of the payment to the distribution network partners. This revenue is reported gross due to the fact that we are the primary obligor to the advertisers who are the customers of the advertising service.

We also enter into agreements to provide private-labeled versions of our products, including licenses to the AdCenter platform technology. These license arrangements may include some or all of the following elements: revenue-sharing based on the publisher's customer's monthly revenue generated through the AdCenter application, upfront fees, minimum monthly fees, and other license fees. We recognize upfront fees over the term of the arrangement or the expected period of performance, other license fees over the term of the license, and revenue-sharing portions over the period in which such revenue is earned. In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectability of the resulting receivable is reasonably assured.

We provide a provision against revenue for estimated reductions resulting from billing adjustments and customer refunds. The amounts of these provisions are evaluated periodically based upon customer experience and historical trends. Our revenue reserves were insignificant and $0.3 million at March 31, 2012 and December 31, 2011, respectively.

Deferred revenue is recorded when payments are received in advance of performance in underlying agreements. Customer deposits are recorded when customers make prepayments for online advertising.

The Company evaluates individual arrangements with customers to make a determination under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-45 *Revenue Recognition* . We test and record revenue accordingly.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from customers failing to make required payments. This valuation allowance is reviewed on a periodic basis to determine whether a provision or reversal is required. The review is based on factors including the application of historical collection rates to current receivables and economic conditions. The Company will record an increase or reduction of its allowance for doubtful accounts if collection rates or economic conditions are more or less favorable than it anticipated. Additional allowances for doubtful accounts may be required if there is deterioration in past due balances, if economic conditions are less favorable than the Company anticipated or for customer-specific circumstances, such as bankruptcy. The allowance for doubtful accounts included in trade accounts receivable, net is $0.8 million and $0.6 million at March 31, 2012 and December 31, 2011, respectively. Bad debt allowance included in general and administrative expense was $0.2 million and not significant for the three months ended March 31, 2012 and 2011, respectively.

Concentrations, Credit Risk and Credit Risk Evaluation

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, investments, and accounts receivable. As of March 31, 2012 and December 31, 2011, the Company placed its cash equivalents and investments primarily

through one financial institution, City National Bank (“CNB”), and mitigated the concentration of credit risk by placing percentage limits on the maximum portion of the investment portfolio which may be invested in any one investment instrument. These amounts exceed federally insured limits. The Company has not experienced any credit losses on these cash equivalents and investment accounts and does not believe it is exposed to any significant credit risk on these funds. The fair value of these accounts is subject to fluctuation based on market prices.

Accounts receivable are typically unsecured and are derived from sales to customers. The Company performs ongoing credit evaluations of its customers and maintains allowances for estimated credit losses. The Company applies judgment as to its ability to collect outstanding receivables based primarily on management’s evaluation of the customer’s financial condition and past collection history and records a specific allowance, if necessary. In addition, the Company records an allowance based on the length of time the receivables are past due. Historically, such losses have been within management’s expectations.

The following table reflects customers that accounted for more than 10% of gross accounts receivable:

	March 31, 2012	December 31, 2011
Company 1	15%	20%
Company 2	14%	12%

Revenue and Cost Concentrations

The following table reflects countries that accounted for more than 10% of net revenue:

	Three Months Ended March 31,	
	2012	2011
United States	61%	62%
Europe, Middle East and Africa	21%	33%

LookSmart derives its revenue from two service offerings, or “products”: Advertiser Networks and Publisher Solutions. The percentage distributions between the two service offerings are as follows:

	Three Months Ended March 31,	
	2012	2011
Advertiser Networks	91%	97%
Publisher Solutions	9%	3%

The following table reflects the percentage of revenue attributed to customers who accounted for more than 10% of net revenue.

	Three Months Ended March 31,	
	2012	2011
Company 1	**	18%
Company 2	14%	15%

The Company derives its revenue primarily from its relationships with significant distribution network partners. The following table reflects the distribution partners that accounted for more than 10% of TAC:

	Three Months Ended March 31,	
	2012	2011
Distribution Partner 1	16%	**
Distribution Partner 2	14%	**
Distribution Partner 3	12%	**
Distribution Partner 4	**	13%
Distribution Partner 5	**	11%

** Less than 10%

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment	3 to 4 years
Furniture and fixtures	5 to 7 years
Software	2 to 3 years

Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the lease term.

When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in operating expenses. Maintenance and repairs are charged to expense as incurred. Expenditures that substantially increase an asset's useful life are capitalized.

Internal-Use Software Development Costs

The Company capitalizes external direct costs of materials and services consumed in developing and obtaining internal-use computer software and the payroll and payroll-related costs for employees who are directly associated with and who devote time to developing the internal-use computer software. These costs are capitalized after certain milestones have been achieved and generally amortized over a three year period once the project is placed in service.

Management exercises judgment in determining when costs related to a project may be capitalized, in assessing the ongoing value of the capitalized costs, and in determining the amortization period for the capitalized costs, which is generally three years. The Company expects to continue to invest in internally developed software and to capitalize such costs.

Impairment of Long-Lived Assets

The Company reviews long-lived assets held or used in operations, including property and equipment and capitalized software development costs, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. Subject assets are tested for impairment at the lowest level of operations that generate cash flows that are largely independent of the cash flows from those of other groups of asset and liabilities. Management has determined that the equity of its single reporting unit is the lowest level of operation at which independent cash flows can be identified. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Assets to be disposed of are reported at the lower of carrying amount or fair value less cost to dispose.

The Company tested its long-lived assets used in operations for impairment as of December 31, 2011 and determined there was no impairment.

Traffic Acquisition Costs

The Company enters into agreements of varying durations with its distribution network partners that display the Company's listings ads on their sites in return for a percentage of the revenue-per-click that the Company receives when the ads are clicked on those partners' sites.

The Company also enters into agreements of varying durations with third party affiliates. These affiliate agreements provide for variable payments based on a percentage of the Company's revenue or based on a certain metric, such as number of searches or paid clicks.

The Company records TAC expenses as cost of revenue and TAC are expensed based on the volume of the underlying activity or revenue, multiplied by the agreed-upon price or rate.

Share-Based Compensation

The Company recognizes share-based compensation costs for all awards granted, including stock option grants, restricted stock awards, and employee stock purchases related to the Employee Stock Purchase Plan, over the requisite service period based on their relative fair values. The Company estimates the fair value of option awards on the grant date using the Black-Scholes method. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company's Unaudited Consolidated Statements of Operations over the requisite service periods. Share-based compensation expense recognized for the three months ended March 31, 2012 and 2011, were $0.1 million for each period, which was related to stock option grants and employee stock purchases.

Forfeitures are estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The forfeiture rate is determined at the end of each fiscal quarter, based on historical rates.

The Company elected to adopt the alternative transition method for calculating the tax effects of share-based compensation to establish the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee share-based compensation awards.

Income Taxes

The Company accounts for income taxes using the liability method. Under the liability method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Company records liabilities, where appropriate, for all uncertain income tax positions. The Company recognizes interest and penalties related to unrecognized tax benefits within operations as income tax expense.

Comprehensive Income (Loss)

Other comprehensive income (loss) as of March 31, 2012 and December 31, 2011, consists of unrealized gains (losses) on marketable securities categorized as available-for-sale and foreign currency translation adjustments.

Net Income (Loss) per Common Share

Basic net income (loss) and diluted net income (loss) per share is calculated using the weighted average shares of common stock outstanding. Diluted net income per share is calculated using the weighted average number of common and potentially dilutive common shares outstanding during the period, using the treasury stock method for stock options.

Segment Information

The Company has one operating segment, online advertising. While the Company operates under one operating segment, management reviews revenue under two product offerings—Advertiser Networks and Publisher Solutions.

As of March 31, 2012 and December 31, 2011, all of the Company's accounts receivable, intangible assets, and deferred revenue are related to the online advertising segment. All long-lived assets are located in the United States and Canada.

Adoption of New Accounting Standards

On January 1, 2012, we adopted guidance issued by the Financial Accounting Standards Board ("FASB") which requires companies to present net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Adoption of this new guidance did not have a material impact on our financial statements.

On January 1, 2012, we adopted guidance issued by the FASB on accounting and disclosure requirements related to fair value measurements. The guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. Adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In December 2011, the FASB issued an amendment to an existing accounting standard which indefinitely defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement.

2. Cash, Cash Equivalents and Short-Term Investments

The following table summarizes the Company's cash and available-for-sale securities' amortized cost and estimated fair value by significant investment category as of March 31, 2012 and December 31, 2011 (*in thousands*):

	Amortized Cost and Estimated Fair Value	
	March 31 2012	December 31 2011
Cash and cash equivalents:		
Cash	$ 5,027	$ 7,205
Cash equivalents		
Money market mutual funds	193	1,045
Certificates of deposit	1,325	3,100
Commercial paper	8,700	6,600
Total cash equivalents	10,218	10,745
Total cash and cash equivalents	15,245	17,950
Short-term investments:		
Corporate bonds	2,042	2,031
Certificates of deposit	3,277	3,278
Commercial paper	2,048	1,500
Total short-term investments	7,367	6,809
Total cash and available-for-sale securities	$ 22,612	$ 24,759

Realized gains and losses were not significant for either of the three months ended March 31, 2012 and 2011. As of March 31, 2012 and December 31, 2011, there were no significant unrealized gains or losses on investments. The cost of all securities sold is based on the specific identification method.

The contractual maturities of cash equivalents and short-term investments at March 31, 2012 and December 31, 2011 were less than one year.

The Company typically invests in highly-rated securities, and its policy generally limits the amount of credit exposure to any one issuer. When evaluating the investments for other-than-temporary impairment, the Company reviews such factors as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's amortized cost basis. During the three months ended March 31, 2012 and 2011, the Company did not recognize any impairment charges on outstanding investments. As of March 31, 2012, the Company does not consider any of its investments to be other-than-temporarily impaired.

3. Property and Equipment

Property and equipment consisted of the following at March 31, 2012 and December 31, 2011 (*in thousands*):

	March 31, 2012			December 31, 2011		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 9,777	$ (8,346)	$ 1,431	$ 9,751	$ (8,002)	$ 1,749
Furniture and fixtures	75	(63)	12	75	(62)	13
Software	1,241	(1,232)	9	1,241	(1,229)	12
Leasehold improvements	308	(156)	152	308	(141)	167
Total	$ 11,401	$ (9,797)	$ 1,604	$ 11,375	$ (9,434)	$ 1,941

Depreciation expense on property and equipment for the three months ended March 31, 2012 and 2011, including property and equipment under capital lease, was $0.4 million and $0.5 million, respectively, and is recorded in operating expenses. Equipment under capital lease totaled $2.4 million and $2.8 million as of March 31, 2012 and December 31, 2011, respectively. Depreciation expense on equipment under capital lease was $0.2 million and $0.3 million for the three months ended March 31, 2012 and 2011, respectively. Additionally, accumulated depreciation on equipment under capital lease was $2.4 million and $2.5 million as of March 31, 2012 and December 31, 2011, respectively.

4. Capitalized Software and Other Assets

The Company's capitalized software and other assets are as follows at March 31, 2012 and December 31, 2011 (*in thousands*):

	March 31, 2012			December 31, 2011		
	Gross Amount	Accumulated Amortization	Net Book Value	Gross Amount	Accumulated Amortization	Net Book Value
Capitalized software	$ 6,472	$ (5,208)	$ 1,264	$ 6,688	$ (5,503)	$ 1,185
Amortizable purchased technology	78	(78)	-	78	(78)	-
Other assets	19	-	19	35	-	35
	$ 6,569	$ (5,286)	$ 1,283	$ 6,801	$ (5,581)	$ 1,220

Capitalized software consists of external direct costs of materials and services consumed in developing and obtaining internal-use computer software and the payroll and payroll-related costs for employees who are directly associated with, and who devote time to, developing the internal-use computer software and is amortized over three years. Amortization expense was $0.2 million and $0.3 million for the three months ended March 31, 2012 and 2011, respectively.

Fully amortized capitalized software of $0.5 million was determined to be obsolete and was written off in March 2012.

5. Accrued Liabilities

Accrued liabilities consisted of the following as of March 31, 2012 and December 31, 2011 (*in thousands):*

	March 31, 2012	December 31, 2011
Accrued distribution and partner costs	$ 609	$ 409
Accrued compensation and related expenses	227	137
Accrued professional service fees	135	257
Other	7	92
Total accrued liabilities	$ 978	$ 895

6. Restructuring Charges

In 2011, the Company paid $0.9 million in pre-tax restructuring charges associated with the termination of employees. All restructuring charges have been classified as such on the Unaudited Consolidated Statement of Operations. The Company had no restructuring costs accrued at March 31, 2012.

7. Capital Lease and Other Obligations

Capital lease and other obligations consist of the following at March 31, 2012 and December 31, 2011 (*in thousands):*

	March 31, 2012	December 31, 2011
Capital lease obligations	$ 481	$ 657
Deferred rent	149	154
Total capital lease and other obligations	630	811
Less: current portion of capital lease obligations	(481)	(515)
Capital lease and other obligations, net of current portion	$ 149	$ 296

Capital Lease Obligations

City National Bank

In April 2007, the Company entered into a master equipment lease agreement with CNB for an original amount of up to $5.0 million for the purchase of computer equipment. The lease expired on April 30, 2010, at which time the Company had drawn down approximately $4.9 million of the available lease line of credit. Interest on the capital leases was calculated using interest rates ranging from 4.32% to 7.95% per annum. In 2011, the master equipment lease agreement was amended to modify two financial covenants, with which the Company was in compliance as of March 31, 2012.

The agreements with CNB, consisting of an outstanding standby letter of credit (“SBLC”) and a master equipment lease agreement, contain cross-default provisions, whereby a default under one is deemed a default for the other, and are secured by a general lien on all assets of the Company. As of March 31, 2012 and December 31, 2011, the Company was not in default on either agreement with CNB. For further discussion see Note 8, Commitments and Contingencies.

8. Commitments and Contingencies

As of March 31, 2012 future minimum payments under all capital and operating leases are as follows (*in thousands*):

	CNB Capital Lease	Operating Leases	Total
Nine months ending December 31, 2012	374	441	815
Years ending December 31,			
2013	110	537	647
2014	-	556	556
Total minimum payments	484	$ 1,534	$ 2,018
Less: amount representing interest	(3)		
Present value of net minimum payments	481		
Less: current portion	(481)		
Long-term portion of capital lease obligations	$ -		

Operating Leases

In August 2009, the Company entered into an agreement to sublease office space for its headquarters in San Francisco, California, under an operating lease that commenced in November 2009 and expires on December 30, 2014. In addition to the scheduled base rent payments, the Company is also responsible for varying amounts of operating and property tax expenses.

The Company leases a sales office in New York, New York on a month to month basis.

The Company leases office space in Kitchener, Canada of approximately of 5,222 square feet. The lease has a constant term of six months.

The Company leases office space in Los Angeles, California of approximately of 4,803 square feet. The lease expires in July 2015.

Letters of Credit

As of March 31, 2012 and December 31, 2011, the Company has an outstanding SBLC related to the security of a building lease for $0.2 million. The SBLC contains two financial covenants, with which the Company was in compliance as of March 31, 2012.

The agreements with CNB, consisting of the SBLCs and master equipment lease agreement, contain cross-default provisions, whereby a default under one is deemed a default for the other, and are secured by a general lien on all assets of the Company. As of March 31, 2011 and December 31, 2011, the Company was not in default on either agreement with CNB. For further discussion, see Note 7, Capital Lease and Other Obligations.

Purchase Obligations

The Company had outstanding purchase obligations of an insignificant amount relating to an open purchase order for which the Company had not received the related services or goods and a non-cancelable contractual obligation relating to IT data center operations as of March 31, 2012.

Guarantees and Indemnities

During its normal course of business, the Company has made certain guarantees, indemnities and commitments under which it may be required to make payments in relation to certain transactions. These indemnities include intellectual property and other indemnities to the Company's customers and distribution network partners in connection with the sales of its products, and indemnities to a lessor in connection with facility leases for certain claims arising from such facility or lease.

Officer and Director Indemnification

Further, the Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving, at the Company's request, in such capacity, to the maximum extent permitted under the laws of the State of Delaware. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company maintains directors and officers insurance coverage that may contribute, up to certain limits, a portion of any future amounts paid, for indemnification of directors and officers. The Company believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal. Historically, the Company has not incurred any losses or recorded any liabilities related to performance under these types of indemnities.

Legal Proceedings

The Company is involved, from time to time, in various legal proceedings arising from the normal course of business activities. Although the results of litigation and claims cannot be predicted with certainty, the Company does not expect resolution of these matters to have a material adverse impact on its consolidated results of operations, cash flows or financial position unless stated otherwise. However, an unfavorable resolution of a matter could, depending on its amount and timing, materially affect its results of operations, cash flows or financial position in a future period. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense costs, diversion of management resources and other factors.

9. Stockholders' Equity

Share-Based Compensation

Stock Option Plans

In December 1997, the Company approved the 1998 Stock Option Plan (the "1998 Plan"). In June 2007, the stockholders approved the LookSmart 2007 Equity Incentive Plan (the "2007 Plan"). Under the 2007 Plan, the Company may grant incentive stock options, nonqualified stock options, stock appreciation rights and stock rights to employees, directors and consultants. Share-based incentive awards are provided under the terms of these two plans (collectively, the "Plans").

The Company's Plans are administered by the Compensation Committee of the Board of Directors. Awards under the Plans principally include at-the-money options and fully vested restricted stock. Outstanding stock options generally become exercisable over a four year period from the grant date and have a term of seven years. Grants can only be made under the 2007 Plan. The 1998 Plan is closed to further share issuance. The number of shares issued or reserved for issuance under the Plans was 4.2 million and 4.3 million shares of common stock as of March 31, 2012 and December 31, 2011, respectively. There were 1.5 million shares available to be granted under the 2007 Plan at March 31, 2012.

Share-based compensation expense recorded during three months ended March 31, 2012 and March 31, 2011 was included in the Company's Unaudited Consolidated Statement of Operations as follows *(in thousands)* :

	Three Months Ended March 31,	
	2012	2011
Sales and marketing	$ 11	$ -
Product development and technical operations	10	44
General and administrative	46	31
Total share-based compensation expense	67	75
Amounts capitalized as software development costs	2	10
Total share-based compensation	$ 69	$ 85

Total unrecognized share-based compensation expense related to share-based compensation arrangements at March 31, 2012 was $0.8 million and is expected to be recognized over a weighted-average period of approximately 3.1 years. The total fair value of equity awards vested during the three months ended March 31, 2012 and 2011, was $0.1 million.

Option Awards

Stock option activity under the Plans during the three months ended March 31, 2012 is as follows:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		*(in years)*	*(in thousands)*
Options outstanding at December 31, 2011	2,662	$ 2.80		
Granted	207	1.26		
Excercised	(2)	1.39		
Expired/forfeited	(235)	2.50		
Options outstanding at March 31, 2012	2,632	$ 2.64	4.18	$ 6
Vested and expected to vest at March 31, 2012	2,331	$ 2.79	3.89	$ 6
Exercisable at March 31, 2012	1,592	$ 3.37	2.87	$ 5

The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between the market price of the Company's stock on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holder had all option holders exercised their options at quarter-end. The intrinsic value amount changes with changes in the fair market value of the Company's stock.

The following table summarizes information about stock options outstanding at March 31, 2012:

	Options Outstanding			Options Exercisable	
Price Ranges	Shares	Weighted-Average Remaining Contractual Term	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share
	(in thousands)	*(in years)*		*(in thousands)*	
$ 1.02 - $ 1.62	1,266	5.21	$ 1.38	532	$ 1.37
1.64 - 2.62	466	5.30	1.93	160	2.11
2.70 - 4.15	607	2.70	3.30	607	3.30
4.33 - 6.50	168	1.17	4.63	168	4.63
7.30 - 10.95	72	1.12	9.24	72	9.24
12.01 - 20.55	53	0.72	16.07	53	16.07
	2,632	4.18	2.64	1,592	3.37

Stock Awards

The Company did not issue restricted stock during the three months ended March 31, 2012 and 2011. The Company recorded no share-based compensation for stock awards for the three months ended March 31, 2012 and 2011, respectively.

Employee Stock Purchase Plan

On July 14, 2009, the 2009 Employee Stock Purchase Plan (the "2009 ESPP") was approved by the shareholders. Under the 2009 ESPP, the Company is authorized to issue up to 500 thousand shares of Common Stock to employees of the Company. Under the 2009 ESPP, substantially all employees may purchase the Company's common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value at the beginning of the offering period or at the end of each applicable purchase period. Each offering period is 6 months and consists of one purchase period. ESPP contributions are limited to a maximum of 15 percent of an employee's eligible compensation, and ESPP participants are limited to purchasing a maximum of 5,000 shares per purchase period. Share-based compensation expense under the 2009 ESPP was insignificant for the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, 69 thousand shares have been issued under the 2009 ESPP.

Share-Based Compensation Valuation Assumptions

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option valuation model. The weighted average assumptions used in the Black-Scholes option valuation model and the weighted average grant date fair value per share for employee, consultant and director stock options were as follows:

	Three Months Ended March 31,	
	2012	2011
Volatility	62.6%	67.3%
Risk-free interest rate	0.88%	1.56%
Expected term (years)	4.41	4.01
Expected dividend yield	-	-
Weighted average grant date fair value	$ 0.63	$ 0.89

As share-based compensation expense recognized in the Unaudited Consolidated Statement of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Exercise of Employee and Director Stock Options and Purchase Plans

There were 2 thousand and 30 thousand options exercised in the three months ended March 31, 2012 and 2011, respectively. The Company issues new shares of common stock upon exercise of stock options. No income tax benefits have been realized from exercised stock options.

10. Fair Value Measurements

Fair Value of Financial Assets

The Company's financial assets measured at fair value on a recurring basis subject to disclosure requirements at March 31, 2012 and December 31, 2011 were as follows (*in thousands*):

	Balance at March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash equivalents:			
Money market mutual funds	$ 193	$ 193	$ -
Certificates of deposit	1,325	-	1,325
Commercial paper	8,700	-	8,700
	10,218	193	10,025
Short-term investments:			
Certificates of deposit	3,277	-	3,277
Corporate bonds	2,042	-	2,042
Commercial paper	2,048	-	2,048
	7,367	-	7,367
Total financial assets measured at fair value	$ 17,585	$ 193	$ 17,392

	Balance at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash equivalents:			
Money market mutual funds	$ 1,045	$ 1,045	$ -
Certificates of deposit	3,100	-	3,100
Commercial paper	6,600	-	6,600
	10,745	1,045	9,700
Short-term investments:			
Certificates of deposit	3,278	-	3,278
Corporate bonds	2,031	-	2,031
Commercial paper	1,500	-	1,500
	6,809	-	6,809
Total financial assets measured at fair value	$ 17,554	$ 1,045	$ 16,509

Investments

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party, nationally recognized pricing service ("pricing service"). When quoted market prices are unavailable, the Company utilizes a pricing service to determine a single estimate of fair value, which is mainly for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm's length transaction.

The Company validates the prices received from the pricing service using various methods including, applicability of Federal Deposit Insurance Corporation or other national government insurance or guarantees, comparison of proceeds received on individual investments subsequent to reporting date, prices received from publicly available sources, and review of transaction volume data to confirm the presence of active markets. The Company does not adjust the prices received from the pricing service unless such prices are determined to be inconsistent. At March 31, 2012 and December 31, 2011, the Company did not adjust prices received from the pricing service.

Trade accounts receivable, net: The carrying value reported in the Consolidated Balance Sheets approximates fair value and is net of allowances for doubtful accounts and returns which estimate customer non-performance risk.

Trade accounts payable and accrued liabilities: The carrying value reported in the Consolidated Balance Sheets for these items approximates their fair value, which is the likely amount which the liability with short settlement periods would be transferred to a market participant with a similar credit standing as the Company.

11. Related Party Transactions

In each of the three months ended March 31, 2012 and 2011, Dr. Jean-Yves Dexmier was paid fees totaling $0.1 million in connection with his services as the Company's Chief Executive Officer and Executive Chairman of the Board.

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

Forward-Looking Statements

The following discussion should be read in conjunction with the Unaudited Consolidated Financial Statements and the Notes to those statements which appear elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as "believes," "intends," "expects," "anticipates," "plans," "may," "will" and similar expressions to identify forward-looking statements. Discussions containing forward-looking statements may be found in the material set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other sections of this report. All forward-looking statements, including, but not limited to, projections, expectations or estimates concerning our business, including demand for our products and services, mix of revenue sources, ability to control and/or reduce operating expenses, anticipated gross margins and operating results, cost savings, product development efforts, general outlook of our business and industry, future profits or losses, competitive position, share-based compensation, and adequate liquidity to fund our operations and meet our other cash requirements, are inherently uncertain as they are based on our expectations and assumptions concerning future events. These forward-looking statements are subject to numerous known and unknown risks and uncertainties. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including but not limited to, the possibility that we may fail to maintain or grow our listings advertiser base and/or distribution network, that existing and potential distribution partners may opt to work with, or favor the products of, competitors if our competitors offer more favorable products or pricing terms, that we may be unable to grow our online search advertising revenue and/or find alternative sources of revenue, that we may be unable to attain or maintain customer acceptance of our publisher solutions products, that changes in the distribution network composition may lead to decreases in query volumes, that we may be unable to maintain or improve our query volume, match rate, number of paid clicks, average revenue per click, conversion rate or other ad network metrics, that we may be unable to achieve or maintain profitability, that we may be unable to retain our existing credit facilities or obtain new credit facilities, that we may be unable to attract and retain key personnel, that we may have unexpected increases in costs and expenses, or that one or more of the other risks described elsewhere in this report may occur.

All forward-looking statements in this report are made as of the date hereof, based on information available to us as of the date hereof, and except as required by applicable law, we assume no obligation to update any forward-looking statements.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of assets and liabilities. On an on-going basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates are discussed in our Annual Report on Form 10-K for the year ended December 31, 2011. As of March 31, 2012, there had been no material changes to our critical accounting policies and estimates.

Business Overview

LookSmart, Ltd. ("LookSmart" or "the Company") is a search advertising network solutions company that provides relevant solutions for search advertising customers. LookSmart was organized in 1996 and is incorporated in the State of Delaware.

LookSmart operates in a large online search advertising ecosystem serving ads that target user queries on partner sites. We operate in the middle of this ecosystem, acquiring search queries from a variety of sources and matching them with the keywords of our search advertising customers. Our search advertising customers are generally of three types; Intermediaries, Direct Advertisers and Self-Service Advertisers. Intermediaries purchase clicks to sell into the affiliate networks of the large search engine providers. Direct Advertisers and their agencies purchase clicks with the assistance of LookSmart account managers to achieve conversions or sales from the clicks or to obtain unique page views. Self-Service Advertisers are small Direct Advertisers that sign-up online, pay by credit card and manage their account with minimal LookSmart account management assistance.

LookSmart offers search advertising customers targeted search via a monitored search advertising distribution network using the Company's

“AdCenter” platform technology. The Company’s search advertising network includes publishers and search advertising customers, including Intermediaries and direct advertising customers and their agencies as well as self-service customers in the United States and certain other countries. The Company’s application programming interface (“API”) allows search advertising customers and their advertising agencies to connect any type of marketing or reporting software with minimal effort, for easier access, management, and optimization of search advertising campaigns.

LookSmart also offers publishers licensed private-label search advertiser network solutions based on its AdCenter platform technology (“Publisher Solutions”). Publisher Solutions consist of hosted auction-based ad serving with an ad backfill capability that allows publishers and portals to manage their advertiser relationships, distribution channels and accounts.

In 2011, revenue from Intermediaries decreased significantly. The decrease was primary driven by a revenue decrease throughout the year, including a significant decrease in the fourth quarter due to revenue chargebacks to our Intermediary customers by large search engine providers. This had a severe impact to Intermediary business models and consequently the business they conduct with us. We have ceased business with several Intermediaries as a result and we do not expect significant future revenue or growth in the Intermediary business. Our future revenue and growth will come largely from Direct Advertisers, Self-Service Advertisers and other digital advertising models we may consider .

Results of Operations

Overview of the Three Months Ended March 31, 2012 and 2011

The following tables set forth selected information concerning our results of operations for the periods indicated (*in thousands*):

	Three Months Ended March 31,					
	2012	% of Revenue	2011	% of Revenue	Dollar Change	% Change
Revenue	$ 4,013	100.0%	$ 8,389	100.0%	$ (4,376)	(52%)
Cost of revenue	2,215	55.2%	4,655	55.5%	(2,440)	(52%)
Gross profit	1,798	44.8%	3,734	44.5%	(1,936)	(52%)
Operating expenses:						
Sales and marketing	706	17.6%	610	7.3%	96	16%
Product development and technical operations	1,788	44.6%	1,597	19.0%	191	12%
General and administrative	1,461	36.4%	1,421	16.9%	40	3%
Restructuring charge	-	0.0%	889	10.6%	(889)	0%
Total operating expenses	3,955	98.6%	4,517	53.8%	(562)	(12%)
Loss from operations	(2,157)	(53.8%)	(783)	(9.3%)	(1,374)	175%
Non-operating income (expense), net	7	0.2%	(13)	(0.2%)	20	(154%)
Loss from continuing operations before income taxes	(2,150)	(53.6%)	(796)	(9.5%)	(1,354)	170%
Income tax benefit	-	0.0%	1	0.0%	(1)	(100%)
Net loss	$ (2,150)	(53.6%)	$ (795)	(9.5%)	$ (1,355)	170%

Revenue

Revenue is derived from two service offerings or “products” of LookSmart Ltd. (the “Company”): Advertiser Networks and Publisher Solutions. Total revenue and revenue from Advertiser Networks and Publisher Solutions for the three months ended March 31, 2012 and 2011, were as follows (*in thousands*):

	Three Months Ended March 31,					
	2012	% of Revenue	2011	% of Revenue	Dollar Change	% Change
Advertiser Networks	$ 3,649	91%	$ 8,147	97%	$ (4,498)	(55%)
Publisher Solutions	364	9%	242	3%	122	50%
Total revenue	$ 4,013	100%	$ 8,389	100%	$ (4,376)	(52%)

Advertiser Networks

The decrease in Advertiser Networks revenue for the three months ended March 31, 2012 as compared to the same period in 2011 is substantially the result of a loss of Intermediary business. We experienced a reduction in Intermediary revenue throughout 2011 and a significant decrease in revenue from Intermediaries in the fourth quarter due to revenue chargebacks to our customers by large search engine providers. This had a severe impact to Intermediary business models and consequently the business they conduct with us. We have ceased business with several Intermediaries as a result and we do not expect significant future revenue or growth in Intermediary business. Our future revenue and growth will come largely from Direct Advertisers, Self-Service Advertisers and other digital advertising models we may consider.

Publisher Solutions

Publisher solutions revenues were higher in the three months ended March 31, 2012 compared to the three months ended March 31, 2011 due to additions to licensees and higher transaction volumes.

Cost of Revenue and Gross Margin

Cost of revenue, consisting of TAC which are amounts paid to our distribution network partners, connectivity costs, hosting expenses, commissions paid to advertising agencies, and credit card fees were as follows for the three months ended March 31, 2012 and 2011 (*in thousands*):

	Three Months Ended March 31,					
	2012	% of Revenue	2011	% of Revenue	Dollar Change	% Change
Traffic acquisition costs	$ 1,851	46%	$ 4,259	51%	$ (2,408)	(57%)
Other costs	364	9%	396	5%	(32)	(8%)
Total cost of revenue	$ 2,215	55%	$ 4,655	56%	$ (2,440)	(52%)

TAC as a percent of associated revenue decreased in the three months ended March 31, 2012 when compared to the three months ended March 31, 2011. This decrease is due to the comparative change in the revenue types between periods.

Our other costs of revenue, which consist of network operating costs and credit card processing fees, decreased due to the decrease in revenue.

Operating Expenses

Operating expenses for the three months ended March 31, 2012 as compared to the same period in 2011 decreased by $0.6 million. Operating expense for the three months ended March 31, 2011 included a $0.9 million restructuring charge for a reduction in workforce in that quarter. Excluding the effect of that 2011 restructuring charge, operating expenses increased by $0.3 million in the first quarter of 2012 compared to the first quarter of 2011. The increase in product development and technical operations expense, net of capitalized software development costs for the three months ended March 31, 2012 is primarily due to higher compensation expense related to higher headcount.

During the remainder of 2012, we plan to increase the workforce, primarily in research and development, sales and customer support which will result in comparatively higher operating expenses; however, this planned increase in headcount and associated expense will continue to be closely evaluated relative to operating margin.

Operating expenses consist of sales and marketing, product development and technical operations, general and administrative, and restructuring charges for the three months ended March 31, 2012 and 2011, and were as follows (*in thousands*):

	Three Months Ended March 31,					
	2012	% of Revenue	2011	% of Revenue	Dollar Change	% Change
Sales and marketing	$ 706	18%	$ 610	7%	$ 96	16%
Product development and technical operations	1,788	45%	1,597	19%	191	12%
General and administrative	1,461	36%	1,421	17%	40	3%
Restructuring charge	-	0%	889	11%	(889)	0%
Total operating expenses	$ 3,955	99%	$ 4,517	54%	$ (562)	(12%)

Sales and Marketing

Sales and marketing expenses include salaries, commissions, share-based compensation and other costs of employment for our sales force, sales administration and customer service staff and marketing personnel, overhead, facilities and allocation of depreciation. Sales and marketing expenses also include the costs of advertising, trade shows, public relations activities and various other activities supporting our customer acquisition efforts.

The increase in sales and marketing expenses for the three months ended March 31, 2012 is primarily due to higher compensation related expense associated with increased headcount.

Product Development and Technical Operations

Product development and technical operations expense includes all costs related to the continued operations, development and enhancement of our core technology product, the AdCenter platform. The AdCenter is used to operate both our own Advertiser Network and other publishers' client networks, and is licensed to publishers to operate their own network. These costs include salaries and associated costs of employment, including share-based compensation, overhead, and facilities. Costs related to the development of software for internal use in the business, including salaries and associated costs of employment are capitalized after certain milestones have been achieved and amortized over a three year period once the project is placed in service. Software licensing and computer equipment depreciation related to supporting product development and technical operations functions are also included in product development and technical operations expense.

Capitalized software development costs include the costs to develop software for internal use, excluding costs associated with research, training

and testing.

Product development and technical operations and capitalized software development costs for the three months ended March 31, 2012 and 2011 were as follows (*in thousands*):

	Three Months Ended March 31,					
	2012	% of Revenue	2011	% of Revenue	Dollar Change	% Change
Product development and technical operations costs	$ 2,078	52%	$ 1,739	21%	$ 339	19%
Capitalized software development costs	(290)	(7%)	(142)	(2%)	(148)	104%
Total product development and technical operations expense	$ 1,788	45%	$ 1,597	19%	$ 191	12%

The increase in product development and technical operations expense, net of capitalized software development costs for the three months ended March 31, 2012 is primarily due to higher compensation expense related to higher headcount.

General and Administrative

General and administrative expenses include costs of executive management, human resources, finance, facilities, and desktop support personnel. These costs include salaries and associated costs of employment, including share-based compensation, overhead, facilities and allocation of depreciation. General and administrative expenses also include legal, insurance, tax and accounting, consulting, professional services fees and the provision for, and reductions of, the allowance for doubtful trade receivables.

The increase in general and administrative expenses for the three months ended March 31, 2012 is primarily due to higher bad debt expense for Intermediary accounts deemed uncollectable in the first quarter of 2012, partially offset by lower consulting and audit expenses in the first quarter of 2012 as compared to the same period in 2011.

Other Items

The tables below set forth other continuing operations data for the three months ended March 31, 2012 and 2011 (*in thousands*):

	Three Months Ended March 31,					
	2012	% of Revenue	2011	% of Revenue	Dollar Change	% Change
Non-operating income (expense), net						
Interest income	$ 20	0%	$ 23	0%	$ (3)	(13%)
Interest expense	(12)	0%	(29)	0%	17	(59%)
Other expense, net	(1)	0%	(7)	0%	6	(86%)
Total non-operating income (expense), net	$ 7	0%	$ (13)	0%	$ 20	(154%)
Income tax benefit	$ -	0%	$ 1	0%	$ (1)	(100%)

Other items were generally comparable between periods.

Income Tax Expense

Due to our utilizable net operating losses, our income tax expense in the U.S. consists of minimum state taxes. Due to utilization of employment related credits, we do not anticipate net taxable income in Canada in 2012.

Liquidity and Capital Resources

The decrease in cash and cash equivalents is as follows for the three months ended March 31, 2012 and 2011 (*in thousands*):

	Three Months Ended March 31,		
	2012	2011	Change
Net cash used in operating activities	$ (1,635)	$ (906)	$ (729)
Net cash used in investing activities	(906)	(2,727)	1,821
Net cash used in financing activities	(168)	(240)	72
Effect of exchange rate changes on cash	4	-	4
Decrease in cash and cash equivalents	$ (2,705)	$ (3,873)	$ 1,168

Cash, cash equivalents and short-term investment balances were as follows as of March 31, 2012 and December 31, 2011 (*in thousands*):

	March 31, 2012	December 31, 2011	Change
Cash and cash equivalents	$ 15,245	$ 17,950	$ (2,705)
Short-term investments	7,367	6,809	558
Total	$ 22,612	$ 24,759	$ (2,147)
% of total assets	82%	82%	
Total assets	$ 27,442	$ 30,112	

At March 31, 2012, we had $22.6 million of cash, cash equivalents and short-term marketable investments. Cash equivalents and short-term marketable investments are comprised of highly liquid debt instruments of the U.S. government, commercial paper, time deposits, money market mutual funds and U.S. corporate securities. We actively monitor the depository institutions that hold our cash and cash equivalents and the institutions of whose debt instruments we hold. Our investment policy, which is reviewed annually by our Board of Directors, primarily emphasizes safety of principal while secondarily on maximizing yield on those funds. We can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. These balances may exceed the Federal Deposit Insurance Corporation insurance limits. While we monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets. See Note 2 to the Unaudited Consolidated Financial Statements, “Cash, Cash Equivalents and Short-Term Investments,” which describes further the composition of our cash, cash equivalents and short-term investments.

Cash, cash equivalents and short-term investments decreased $2.1 million to $22.6 million at March 31, 2012, from $24.8 million at December 31, 2011 primarily due to operating loss, the use of capital to acquire equipment, principal payments on capital leases, and decreased accounts payable.

Our primary source of liquidity is our cash, cash equivalents, and short-term investments. Our current primary use of cash is to fund operating losses, investment in software development, and financing obligations. We believe that our existing cash, cash equivalents, and short-term investments will be sufficient to satisfy our current anticipated cash requirements through at least the next 12 months, if not longer. Our liquidity could be negatively affected by a decrease in demand for our services beyond the current quarter, and changes in customer buying behavior. In addition, our liquidity could be negatively affected if we are in default under our credit facilities and are required to pay the lenders cash in an amount equal to the capital lease balance, or are required to identify restricted cash equal to the capital lease balance, plus an outstanding standby letter of credit. Also, if the banking system or the financial markets continue to remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected. In addition, we may seek to raise additional capital through public or private debt or equity financings in order to fund our operations and capital expenditures, take advantage of favorable business opportunities, develop and upgrade our technology infrastructure, develop new product and service offerings, take advantage of favorable conditions in capital markets or respond to competitive pressures. In addition, unanticipated developments in the short term requiring cash payments, including the acquisition of businesses with negative cash flows, may necessitate additional financing. We cannot be assured that additional financing will be available on terms favorable to us, or at all. If we issue additional equity or convertible debt securities, our existing stockholders may experience substantial dilution.

Operating Activities

Cash used in operating activities in the three months ended March 31, 2012 consisted of our net loss adjusted for certain non-cash items, including depreciation, amortization, provision for doubtful accounts, and share-based compensation expense, as well as the effect of changes in working capital and other activities. Cash used in operations in the three months ended March 31, 2012 was $1.6 million and consisted of a net loss of $2.2 million, adjustments for non-cash items of $1 million and cash used by working capital and other activities of $0.4 million. Adjustments for non-cash items primarily consisted of $0.6 million of depreciation and amortization expense on property and equipment and internally developed software, $0.2 million bad debt expense and $0.1 million of share-based compensation expense. In addition, changes in working capital activities primarily consisted of a $0.4 million decrease in accounts payable and accrued liabilities, partially offset by a net decrease of $0.1 million in accounts receivable. The decrease in accounts payable and accrued liabilities was primarily due to reduced TAC and operating expenses. The decrease in accounts receivable is primarily attributed to a decrease in invoiced customer revenue.

Cash used in operating activities in the three months ended March 31, 2011 consisted of our net loss adjusted for certain non-cash items, including depreciation, amortization, share-based compensation expense, as well as the effect of changes in working capital and other activities. Cash used in operations in the three months ended March 31, 2011 was $0.9 million and consisted of a net loss of $0.8 million, adjustments for non-cash items of $0.9 million and cash used by working capital and other activities of $1.0 million. Adjustments for non-cash items primarily consisted of $0.7 million of depreciation and amortization expense on property and equipment and internally developed software. In addition, changes in working capital activities primarily consisted of a net increase of $0.5 million in accounts receivable, a $0.3 million decrease in account payable and accrued liabilities, and $0.2 million increase in prepaid expense and other current assets. The increase in accounts receivables is primarily attributed to extended payment terms for a large customer. The decrease in accounts payable and accrued liabilities was primarily due to reduced TAC and operating expenses.

Investing Activities

Cash used in investing activities in the first quarter of 2012 of $0.9 million was primarily attributed to $0.6 million net purchase of investments. Capital expenditures in the first quarter of 2012 consisted of an investment of $0.3 million in internally developed software related to our AdCenter platform technology.

Cash used in investing activities in the first quarter of 2011 of $2.7 million was primarily attributed to $2.4 million net purchase of investments. Capital expenditures in the first quarter of 2011 consisted of $0.3 million for equipment acquired during the quarter and an investment of $0.1 million in internally developed software related to our AdCenter platform technology.

Financing Activities

Cash used in financing activities in the three months ended March 31, 2012 of $0.2 million is primarily attributed to $0.2 million in scheduled capital lease payments.

Cash used in financing activities in the three months ended March 31, 2011 of $0.2 million is primarily attributed to $0.3 million in scheduled capital lease payments.

Credit Arrangements

We have outstanding standby letters of credit ("SBLC") issued by City National Bank ("CNB") of approximately $0.2 million at March 31, 2012, related to security of our corporate office lease.

We have a master equipment lease agreement with CNB for an original amount of up to $5.0 million for the purchase of computer equipment. The lease expired on April 30, 2010, at which time the Company had drawn down approximately $4.9 million of the available lease line of credit. As of March 31, 2012 our outstanding balance was $0.5 million.

Our agreements with CNB, consisting of the SBLC and master equipment lease agreement, contain cross-default provisions whereby a default under one is deemed a default for the other, and are secured by a general lien on all assets of the Company. As of March 31, 2012, we are in compliance with both agreements with CNB.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Regulation S-K Item 303(a)(4), investments in special-purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

Contractual Obligations and Commercial Commitments

In comparison with our Annual Report on Form 10-K for the year ended December 31, 2011, we believe that there have been no material changes in contractual obligations or commercial commitments outside the ordinary course of business, during the three months ended March 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Pursuant to Section 229.305(e) of Regulation S-K, we are not required to provide information regarding quantitative and qualitative disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining "disclosure controls and procedures" (as defined in rules promulgated under the Securities Exchange Act of 1934, as amended) for our Company. Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and Form 10-Q, and (ii) is accumulated and communicated to the Company's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a Company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the Chief Executive Officer and the Chief Financial Officer have concluded that these controls and procedures are effective at the "reasonable assurance" level.

PART II

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Pursuant to Item 1A of Form 10-Q we are not required to provide information regarding material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2011.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Please see the exhibit index following the signature page of this report.

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.

LOOKSMART, LTD.

Dated: May 4, 2012

By: /s/ William O'Kelly
William O'Kelly
Senior Vice President Operations
and Chief Financial Officer

EXHIBIT INDEX

Exhibits

Number	Description of Document
3.1	Restated Certificate of Incorporation (Filed with the Company's Quarterly Report on Form 10-Q (File No. 000-26357) filed with the SEC on November 9, 2010).
3.2	Bylaws (Filed with the Company's Quarterly Report on Form 10-Q (File No. 000-26357) filed with the SEC on August 14, 2000).
4.1	Form of Specimen Stock Certificate (Filed with the Company's Quarterly Report on Form 10-Q (File No. 000-26357) filed with the SEC on November 14, 2005).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

(*) Filed herewith

(**) Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

(++) Management contract or compensatory plan or arrangement.

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER,
AS REQUIRED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jean-Yves Dexmier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LookSmart, Ltd.;

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 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 4, 2012

/s/ Jean-Yves Dexmier
Jean-Yves Dexmier
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER,
AS REQUIRED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William O'Kelly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LookSmart, Ltd.;

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 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 4, 2012

/s/ William O'Kelly
William O'Kelly
Senior Vice President Operations and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jean-Yves Dexmier, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that the quarterly report of LookSmart, Ltd. on Form 10-Q for the fiscal quarter ended March 31, 2012 fully complies with the requirements of §13(a) or §15(d) of the Securities Exchange Act of 1934 and that information contained in such quarterly report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of LookSmart, Ltd.

Date: May 4, 2012

By: /s/ Jean-Yves Dexmier
Name: Jean-Yves Dexmier
Title: Chief Executive Officer
(Principal Executive Officer)

I, William O'Kelly, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that the quarterly report of LookSmart, Ltd. on Form 10-Q for the fiscal quarter ended March 31, 2012 fully complies with the requirements of §13(a) or §15(d) of the Securities Exchange Act of 1934 and that information contained in such quarterly report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of LookSmart, Ltd.

Date: May 4, 2012

By: /s/ William O'Kelly
Name: William O'Kelly
Title: Senior Vice President Operations and
Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of LookSmart, Ltd. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.