



## LookSmart Reports First Quarter 2007 Results

### -- Revenue growth of 25% versus Q1 of 2006 -- Gross margin expands from Q1 of 2006 to 42% -- Key advertising and audience metrics continue to improve

SAN FRANCISCO, May 03, 2007 (BUSINESS WIRE) -- LookSmart, Ltd. (NASDAQ:LOOK) (ASX:LOK), an online advertising and technology company, today announced financial results for the first quarter ended March 31, 2007.

"We continue to be encouraged with the results achieved during the first quarter of 2007 as we execute our strategy focused on the customer groups of consumers, publishers and advertisers," commented Dave Hills, President and Chief Executive Officer of LookSmart. "During the first quarter of 2007, we continued to invest in the critical areas of research and development, as well as sales and marketing. We meaningfully added to our executive sales team with the addition of two highly experienced sales executives to focus on publishers and advertisers, as well as opening an East Coast operation. We also continued critical development of our AdCenter platform, providing publishers with market leading capabilities which benefit advertisers as well. We made progress with our consumer sites as our consumer audience increased 23% year-over-year to over 15 million unique visitors for the first quarter. The recent announcement of our partnership with Blinkx, the world's largest video search engine, demonstrates our commitment to enhancing and growing our consumer proposition."

For the first quarter of 2007, LookSmart reported total revenue of \$13.2 million, representing a 25% increase from \$10.5 million in the first quarter of 2006. GAAP net loss for the first quarter of 2007 was \$3.4 million, or \$0.15 per share, which includes \$0.5 million of non-cash, share-based compensation charges. This compares to a GAAP net loss in the first quarter of 2006 of \$4.5 million, or \$0.20 per share, which includes non-cash, share-based compensation charges of \$0.3 million. The EPS amounts above are based on 22.9 million and 22.8 million weighted average shares outstanding in the first quarter of 2007 and 2006, respectively.

Gross margin increased to 42% in the first quarter of 2007 versus 33% in the first quarter of 2006 due to lower traffic acquisition costs (TAC).

Total operating expenses in the first quarter of 2007 were \$9.3 million, including \$0.5 million of non-cash, share-based compensation charges. This compares to total operating expenses of \$8.5 million in the first quarter of 2006, which included \$0.3 million of non-cash, share-based compensation charges. Operating expenses in the first quarter of 2007 include increased levels of investment in the areas of sales and marketing as well as an increase in general and administrative expense. Despite the higher operating expense levels, operating leverage improved approximately 10 percentage points in the first quarter of 2007 compared to the first quarter of 2006. LookSmart reported an operating loss of \$3.9 million in the first quarter of 2007 as compared to an operating loss of \$5.0 million in the same period a year ago.

On a non-GAAP basis, for the first quarter of 2007, Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization excluding stock based compensation) improved to a loss of \$2.1 million from a loss of \$2.8 million in the first quarter of 2006.

An explanation of LookSmart's use of non-GAAP financial measures in this release, including the limitations of such measures relative to GAAP measures and reconciliation between GAAP and non-GAAP measures where appropriate, is included later in this release.

Capital expenditures, including capitalization of internally developed software, were \$0.6 million in the first quarter of 2007, compared to \$1.4 million in the prior year period. Depreciation and amortization was \$1.4 million in the first quarter of 2007 compared to \$1.8 million in the first quarter of 2006. The reduction in depreciation and amortization reflects the lower capital expenditure levels of the Company over the past two years.

The Company ended the quarter with \$38.6 million in cash, cash equivalents and investments, a decrease of \$2.5 million from the end of the fourth quarter of 2006.

#### Q1 2007 Key Metrics Performance

-- Total paid clicks increased to approximately 94 million for the first quarter of 2007 compared to approximately 74 million for

the first quarter of 2006, representing an increase of 27%.

-- Average revenue per click (RPC) was approximately \$0.11 for the first quarter of 2007, a slight decline from approximately \$0.12 in the first quarter of 2006.

-- Traffic acquisition costs (TAC) of 59% for LookSmart's Ad Network decreased from the 66% rate in the first quarter of 2006.

-- Total monthly unique visitors to the Company's network of owned sites were 15.2 million at the end of the first quarter of 2007 compared to 12.4 million at the end of the first quarter of 2006.

## Second Quarter and Full Year 2007 Outlook

### Second Quarter 2007 Outlook

LookSmart provides the following outlook on a GAAP basis:

-- Revenue is expected to increase 20% to 25% from the second quarter of 2006.

-- Gross margin is expected to remain relatively consistent with the first quarter of 2007 at 42% to 43%, an approximate 7-8 percentage point increase over the second quarter of 2006.

-- Operating expenses are expected to increase by approximately 5% from the second quarter of 2006, inclusive of approximately \$0.6 million of non-cash, share based compensation expense. While operating expense levels will increase, the Company expects operating leverage to continue to improve due to ongoing revenue growth.

-- Depreciation and amortization expense is expected to decrease from \$1.7 million in the second quarter of 2006 to \$1.4 million in the second quarter of 2007.

-- Capital investment levels are expected to decrease by approximately \$0.7 million in the second quarter of 2007 versus the prior year period.

### Full Year 2007 Outlook

LookSmart is updating its outlook, on a GAAP basis, for the full year ending December 31, 2007 as follows:

-- Revenue is expected to increase 20% to 25% from the year ended 2006.

-- Gross margin is expected to remain relatively consistent throughout the year at approximately 42% to 44%.

-- Operating expenses are expected to increase approximately 5% from 2006 levels, inclusive of approximately \$2.6 million of non-cash, share based compensation expense.

-- Depreciation and amortization expense is expected to decrease from \$6.4 million in 2006 to approximately \$5.6 million for the year ended December 31, 2007. This is reflective of the lower capital investment levels experienced at the Company during the prior two years.

-- Capital investment levels are expected to increase by approximately \$2 million in 2007 to accommodate required investments that were deferred during 2005 and 2006. A significant portion of this capital investment will be funded through a new \$5 million equipment line that was closed during April 2007.

### Conference Call

LookSmart will host a conference call today at 5:00 p.m. ET (7:00 a.m. Australian ET, May 4, 2007) to discuss its financial results. To listen to the call from the U.S., dial 1-888-321-3075; from Australia, dial 180-046-9087. The call will also be available live via webcast on LookSmart's Investor Relations Web site at <http://www.shareholder.com/looksmart/>. For those unavailable to listen to the call live, the webcast will be archived and a replay of the call will be available until Thursday, May 10, 2007, 11:59 p.m. ET. To access the replay from the U.S., dial 1-877-519-4471 and enter passcode 8685715; from outside the U.S., dial 1-973-341-3080 and enter passcode 8685715.

About LookSmart, Ltd.

LookSmart is an online advertising and technology company that provides relevant solutions for advertisers, publishers and consumers. LookSmart offers advertisers targeted, pay-per-click (PPC) search advertising and banners via its consumer Web properties and a monitored ad distribution network; a customizable set of private-label solutions for publishers; and vertical search sites and web tools for consumers. LookSmart is based in San Francisco, California. For more information, visit [www.looksmart.com](http://www.looksmart.com) or call 415-348-7500.

#### Non-GAAP to GAAP Reconciliation

When evaluating Adjusted EBITDA, investors should consider, among other factors, (i) increasing or decreasing trends in Adjusted EBITDA, and (ii) how Adjusted EBITDA compares to levels of interest expense, taxes and depreciation and amortization. We provide a reconciliation of Adjusted EBITDA to GAAP net loss.

	Quarter Ended March 31, 2007 (unaudited)	Quarter Ended March 31, 2006 (unaudited)
GAAP net loss	(3,426)	(4,519)
Add: taxes	6	11
Less: interest income, net	(515)	(438)
Add: other	--	52
Add: depreciation and amortization	1,354	1,778
	-----	-----
EBITDA	(2,581)	(3,116)
Add: stock based compensation	512	295
	-----	-----
Adjusted EBITDA	(2,069)	(2,821)

#### Use of Non-GAAP Measures

LookSmart provides non-GAAP financial information to assist investors in assessing its current and future operations in the way that LookSmart's management evaluates those operations. Non-GAAP operating expenses, non-GAAP net loss and Adjusted EBITDA are supplemental measures of LookSmart's performance that are not required by, and are not presented in accordance with, generally accepted accounting principles (GAAP). The non-GAAP information does not substitute for any performance measure derived in accordance with GAAP. LookSmart believes that this non-GAAP information provides useful information to investors by excluding the effect of some non-cash expenses and other amounts that are required to be recorded under GAAP but that LookSmart believes are not indicative of LookSmart's cash-based operating results.

LookSmart's management evaluates and makes operating decisions about its business operations primarily based on revenue and the cash costs of those business operations (distinct from non-cash costs of operations). Therefore, management presents non-GAAP financial measures, along with GAAP measures, in this earnings release by excluding these non-cash items from the period expenses. A limitation associated with these measures is that they do not include stock-based compensation expense related to our workforce and, as to Adjusted EBITDA, interest, taxes, depreciation and amortization amounts related to our business operations. A limitation of non-GAAP net loss is that it does not include all items that impact our net loss and net loss per share for the period. The income statement line items involved in the adjustment from GAAP to non-GAAP presentation in this earnings release are the following items that include equity-based compensation charges (or, with respect to Adjusted EBITDA, the following items excluding cost of revenues): (1) cost of revenues; (2) operating expenses, research and development; (3) operating expenses, selling and marketing; and (4) operating expenses, general and administrative. These items in turn affect (1) total cost of revenues; (2) total costs and expenses; (3) operating income/loss; (4) income before income taxes; (5) net loss, and (6) basic earnings per share.

For each such non-GAAP financial measure, the adjustment provides management with information about LookSmart's underlying cash-based operating performance that enables comparison of its cash-based financial results in different reporting periods. Additionally, our management uses Adjusted EBITDA as a supplemental measure in the evaluation of our businesses and believes that Adjusted EBITDA provides visibility into our ability to meet our future capital expenditures and working capital requirements. LookSmart's management excludes the impact of equity-based compensation to eliminate the effects of this non-cash item, which, because it is based upon estimates on the grant dates, may bear little resemblance to the actual values realized upon the future exercise, expiration, termination or forfeiture of the stock-based compensation, and which, as it relates to stock options and stock purchase plan shares, is required for GAAP purposes to be estimated under valuation models, including the Black-Scholes model used by LookSmart. LookSmart's management also excludes the impact of equity-based compensation to help it compare current period cash operating expenses against the operating expenses for prior periods.

Management uses these non-GAAP measures to help it make budgeting decisions between those expenses that affect operating expenses and operating margin (such as research and development, sales and marketing, and general and administrative expenses), and those expenses that affect cost of revenue and gross margin. Further, the availability of non-GAAP financial information helps management track actual performance relative to financial targets, including both internal targets and publicly announced targets. Making this non-GAAP financial information available to investors, in addition to the GAAP information, helps investors compare LookSmart's performance with the performance of other companies in our industry, which use similar financial measures to supplement their GAAP financial information.

As stated above, management recognizes that the use of these non-GAAP measures has limitations, including the fact that management must exercise judgment in determining which types of charges should be excluded from the non-GAAP financial information. Because other companies, including companies similar to LookSmart, may calculate their non-GAAP earnings differently than LookSmart, non-GAAP measures may have limited usefulness in comparing companies. Management believes, however, that providing this non-GAAP financial information, in addition to the GAAP information, facilitates comparison of LookSmart's financial performance on a cash basis over time. LookSmart has provided non-GAAP results to the investment community, not as an alternative but as an important supplement to GAAP information, to enable investors to evaluate LookSmart's cash-based operating performance in the same way that management does.

#### Forward-Looking Statements

This press release contains forward-looking statements, such as references to our business outlook. These statements, including their underlying assumptions, are subject to risks and uncertainties and are not guarantees of future performance. Results may differ due to various factors such as the possibility that we may fail to preserve our expertise in search, online advertising and social bookmarking product development, 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 sources of revenue other than our listings revenue, that we may be unable to increase growth in our owned-and-operated sites, that we may be unable to license compelling content at reasonable costs, 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 traffic volumes, that we may be unable to improve our match rate, average revenue per click, conversion rate or other advertiser metrics, that advertisers may decide to reduce spending or terminate their relationships with us or our partners, that we may be unable to achieve operating profitability, that we may be unable to attract and retain key personnel, or that we may have unexpected increases in costs and expenses. In addition, you should read the risk factors detailed in our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission.

The statements presented in this press release speak only as of the date of the release. Please note that except as required by applicable law we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

NOTE: "LookSmart" is a trademark of LookSmart, Ltd., and/or its subsidiaries in the U.S. and other countries. All other trademarks mentioned are the property of their respective owners.

Exhibit A  
LOOKSMART, LTD.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)  
(Unaudited)

	March 31, 2007	December 31, 2006
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$26,166	\$32,901
Short-term investments	12,481	7,257
	-----	-----
Total cash, cash equivalents and short-term investments	38,647	40,158
Trade accounts receivable	4,511	4,639
Prepaid expenses	546	516
Other current assets	415	339
	-----	-----

Total current assets	44,119	45,652
Long-term investments	--	998
Property and equipment, net	4,246	4,588
Security deposits and other assets, net	3,605	3,533
Intangible assets, net	2,397	3,364
Goodwill	14,422	14,422
	-----	-----
Total assets	\$68,789	\$72,557
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 3,097	\$ 2,576
Accrued expenses and other current liabilities	5,281	5,624
Deferred revenue and customer deposits	1,745	2,541
Current portion of long-term liabilities	1,397	1,391
	-----	-----
Total current liabilities	11,520	12,132
Other long-term liabilities, net of current portion	2,533	2,876
	-----	-----
Total liabilities	14,053	15,008
Total stockholders' equity	54,736	57,549
	-----	-----
Total liabilities and stockholders' equity	\$68,789	\$72,557
	=====	=====

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

	Three Months Ended March 31,	
	2007	2006
	-----	-----
Revenues	\$13,225	\$10,543
Cost of revenues	7,653	7,088
	-----	-----
Gross profit	5,572	3,455
	-----	-----
Operating expenses:		
Sales and marketing	2,128	1,742
Product development	4,172	4,282
General and administrative	3,009	2,428
	-----	-----
Total operating expenses	9,309	8,452
Total other loss from operations	(198)	--
	-----	-----
Loss from operations	(3,935)	(4,997)

Non-operating income, net	515	489
	-----	-----
Loss from operations before income taxes	(3,420)	(4,508)
Income tax expense	(6)	(11)
	-----	-----
Loss from operations	(3,426)	(4,519)
	-----	-----
Net loss	\$ (3,426)	\$ (4,519)
	=====	=====
Basic and diluted net loss per common share:		
Loss from operations	\$ (0.15)	\$ (0.20)
	-----	-----
Net loss	\$ (0.15)	\$ (0.20)
	=====	=====
Weighted average shares outstanding used in per common share calculation	22,885	22,804

SOURCE: LookSmart, Ltd.

LookSmart Ltd.

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