



LookSmart Reports Second Quarter 2011 Results

SAN FRANCISCO, Aug. 2, 2011 (GLOBE NEWSWIRE) -- LookSmart, Ltd. (Nasdaq:LOOK), an online search advertising network solutions company, today announced financial results for the second quarter ended June 30, 2011.

Revenues for the second quarter of 2011 were \$6.6 million, compared to \$13.0 million in the second quarter of 2010 and \$8.4 million in the first quarter of 2011. Revenues from the Company's Advertiser Network were \$6.3 million in the second quarter of 2011, \$12.1 million in the second quarter of 2010 and \$8.1 million in the first quarter of 2011. Revenues from the Company's Publisher Solutions were \$0.3 million in the second quarter of 2011, \$0.9 million in the second quarter of 2010 and \$0.2 million in the first quarter of 2011.

Net income for the second quarter of 2011 was \$354 thousand, or \$0.02 per diluted share, which includes \$339 thousand in non-operating income from the closure of a Settlement Fund established in 2008 to cover a litigation matter. The Company determined that all settlements related to the Fund had been paid. This compares to net income for the second quarter of 2010 of \$0.7 million, or \$0.04 per diluted share. Net loss for the first quarter of 2011 was \$0.8 million, or (\$0.05) per diluted share, which includes \$0.9 million of restructuring charges. Excluding restructuring charges, net income for the first quarter of 2011 was \$0.1 million, or \$0.01 per share.

Commenting on the results, Dr. Jean-Yves Dexmier, Executive Chairman and Chief Executive Officer said, "Yahoo! Partners, our largest customer group, continued to be affected significantly by reduced payments following the Yahoo!-Bing Search Alliance integration which consequently resulted in lower revenues. We carefully managed our operating expenses and were able to maintain operating income. For the second half of 2011, our focus is on revenue growth from our partners and from performance based pricing models targeting our direct advertising customers and their agencies."

Gross margin from continuing operations increased to 48% in the second quarter of 2011 from 42% in the second quarter of 2010, and 45% in the first quarter of 2011. The year-over-year and sequential increase in margin was due primarily to lower traffic acquisition costs ("TAC") resulting from the continued optimization of bids/prices paid for different sources of traffic and keywords, partially offset by lower Publisher Solutions revenue.

Total operating expenses in the second quarter of 2011 were \$3.1 million, which includes \$0.1 million of non-cash, share-based compensation charges. Operating expenses for the second quarter of 2010 were \$4.9 million, which includes \$0.2 million of non-cash, share-based compensation charges. Operating expenses for the first quarter of 2011 were \$4.5 million, which includes \$0.9 million of restructuring expense and \$0.1 million of non-cash, share-based compensation.

Non-GAAP net income (net income before discontinued operations and stock based compensation) for the second quarter of 2011 was \$0.4 million compared to non-GAAP net income of \$0.7 million in the second quarter of 2010. Non-GAAP net income (net income before discontinued operations and excluding restructuring charges and stock based compensation) for the first quarter of 2011 was \$0.2 million.

An explanation of LookSmart's use of non-GAAP financial measures, 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, in the second quarter of 2011 were \$0.2 million, compared to \$0.3 million in the second quarter of 2010, and \$0.3 million in the first quarter of 2011. Depreciation and amortization in the second quarter of 2011 was \$0.7 million, compared to \$0.8 million in the second quarter of 2010 and \$0.7 million in the first quarter of 2011.

The Company ended the quarter with \$26.0 million in cash, cash equivalents, and investments, compared to \$26.9 million at December 31, 2010. The Company paid \$0.9 million in restructuring charges in the first quarter of 2011.

Q2 2011 Key Metrics Performance

- Total paid clicks for the second quarter of 2011 were 146 million, compared to 190 million for the second quarter of 2010 and 146 million for the first quarter of 2011.
- Average Advertising Network RPC for the second quarter of 2011 was \$0.043 compared to \$0.064 in the second quarter

of 2010 and \$0.056 in the first quarter of 2011.

- Traffic acquisition costs (TAC) for LookSmart's Ad Network decreased to 48% from 58% in the second quarter of 2010, and 52% in the first quarter of 2011.

Conference Call

LookSmart will host a conference call today at 5:00 p.m. ET to discuss its second quarter 2011 financial results. Participating on the call will be Dr. Jean-Yves Dexmier, Executive Chairman and Chief Executive Officer and Bill O'Kelly, Senior Vice President Operations and Chief Financial Officer. To listen to the call from the US, dial 1-877-407-4018; from outside the US, dial 1-201-689-8471. A telephonic replay of the call will be available until August 16, 2011, 11:59 pm ET. To access the replay from the US, dial 1-877-870-5176 and enter passcode 376778; from outside the US, dial 1-858-384-5517 and enter passcode 376778. The call will also be available live by webcast on LookSmart's Investor Relations website at <http://investor.shareholder.com/looksmart/>.

About LookSmart, Ltd.

LookSmart is an online search advertising network solutions company that provides performance solutions for online search advertisers and online publishers. LookSmart offers advertisers targeted, performance based search advertising via its Advertiser Networks; and an Ad Center platform for customizable private-label advertiser solutions for online publishers. LookSmart is based in San Francisco, California. For more information, visit www.looksmart.com or call 415-348-7500.

The LookSmart, Ltd. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=8717>

GAAP to Non-GAAP Reconciliation

We provide a reconciliation of GAAP net income (loss) to non-GAAP net income (loss) below:

GAAP to Non-GAAP Reconciliation

(000's)	Three Months Ended		
	June 30, 2011 (unaudited)	March 31, 2011 (unaudited)	June 30, 2010 (unaudited)
GAAP Net income (loss)*	\$ 354	\$ (795)	\$ 652
Add: Stock based compensation from continuing operations	90	75	163
Subtract: Income from discontinued operations	--	--	(85)
Add: Restructuring charges	--	889	--
Non-GAAP net income	<u>\$ 444</u>	<u>\$ 169</u>	<u>\$ 730</u>

*Net income for the three months ended June 30, 2011 includes \$339 thousand in non-operating income from the closure of a Settlement Fund.

Use of Non-GAAP Measures

Regulation G, "Conditions for Use of Non-GAAP Financial Measures," and other provisions of the Securities Exchange Act of 1934, as amended, define and prescribe the conditions for use of certain non-GAAP financial information. LookSmart provides "non-GAAP net income," which is a non-GAAP financial measure. Non-GAAP net income consists of net income (loss) before (a) income from discontinued operations; (b) share-based compensation expense; and (c) restructuring charges.

The Company believes this non-GAAP financial measure provides important supplemental information to management and investors. This non-GAAP financial measure reflects an additional way of viewing aspects of the Company's operations that the Company believes, when viewed with the GAAP results and the accompanying reconciliation to corresponding GAAP financial measures, provides useful information regarding factors and trends affecting the Company's business and results of operations.

For the non-GAAP financial measure non-GAAP net income, the adjustment provides management with information about LookSmart's operating performance that enables comparison of its operating financial results in different reporting periods. Additionally, our management uses non-GAAP net income as a supplemental measure in the evaluation of our business, and believes that non-GAAP net income provides visibility into our ability to meet our future capital expenditures and working capital requirements.

This non-GAAP financial measure is used in addition to, and in conjunction with, results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review the Company's consolidated financial statements in their entirety and to not rely on any single financial measure. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. In addition, the Company expects to continue to incur expenses similar to the non-GAAP adjustments described above, in particular stock based compensation expense, and exclusion of these items from the Company's non-GAAP measures should not be construed as an inference that these costs are unusual, infrequent or non-recurring.

Forward-Looking Statements

This press release contains forward-looking statements, such as references to our business prospects. 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 our continued efforts to control expenses may not be successful, that our efforts to increase revenue and improve gross margin may not succeed, that we may not be able to sustain profitability, that we may not succeed in lowering traffic acquisition costs; that our efforts to increase traffic quality may not be successful; that we may be unable to gain or maintain customer acceptance of our publisher solutions or ad backfill products, that existing and potential customers for our products may opt to work with, or favor the products of, others due to more favorable products or pricing terms, that we may be limited in our ability or unable to retain and grow our ad and customer base, and that we may be limited in our ability to, or be unable to, enhance our products or our network of distribution partners. Additional risks that could cause actual results to differ materially from those projected are discussed in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof.

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.

LOOKSMART, LTD. CONSOLIDATED BALANCE SHEETS

(In thousands)

	<u>June 30,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,228	\$ 22,119
Short-term investments	11,254	3,250
Total cash, cash equivalents and short-term investments	22,482	25,369
Trade accounts receivable, net	2,137	3,267
Prepaid expenses and other current assets	656	680
Total current assets	25,275	29,316
Long-term investments	3,528	1,577
Property and equipment, net	2,441	3,082
Capitalized software and other assets, net	1,453	1,750
Total assets	<u>\$ 32,697</u>	<u>\$ 35,725</u>

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:

Trade accounts payable	\$ 1,330	\$ 2,503
Accrued liabilities	1,495	2,615

Deferred revenue and customer deposits	1,022	1,004
Current portion of capital lease obligations	<u>856</u>	<u>1,048</u>
Total current liabilities	4,703	7,170
Capital lease and other obligations, net of current portion	<u>520</u>	<u>902</u>
Total liabilities	<u>5,223</u>	<u>8,072</u>
Commitment and contingencies		
Stockholders' equity:		
Common stock	17	17
Additional paid-in capital	261,987	261,740
Accumulated other comprehensive gain	16	1
Accumulated deficit	<u>(234,546)</u>	<u>(234,105)</u>
Total stockholders' equity	<u>27,474</u>	<u>27,653</u>
Total liabilities and stockholders' equity	<u>\$ 32,697</u>	<u>\$ 35,725</u>

LOOKSMART, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(Unaudited)

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue	\$ 6,605	\$ 13,017	\$ 14,994	\$ 26,303
Cost of revenue	<u>3,439</u>	<u>7,525</u>	<u>8,094</u>	<u>16,561</u>
Gross profit	<u>3,166</u>	<u>5,492</u>	<u>6,900</u>	<u>9,742</u>
Operating expenses:				
Sales and marketing	554	1,275	1,202	2,429
Product development and technical operations	1,550	2,001	3,144	3,993
General and administrative	1,041	1,669	2,427	3,360
Restructuring charge	<u>--</u>	<u>--</u>	<u>889</u>	<u>--</u>
Total operating expenses	<u>3,145</u>	<u>4,945</u>	<u>7,662</u>	<u>9,782</u>
Income (loss) from operations	21	547	(762)	(40)
Interest income	24	16	47	33
Interest expense	(24)	(41)	(53)	(83)
Other income, net	<u>333</u>	<u>44</u>	<u>326</u>	<u>52</u>
Income (loss) from continuing operations before income taxes	354	566	(442)	(38)
Income tax benefit (expense)	<u>--</u>	<u>1</u>	<u>1</u>	<u>(5)</u>
Income (loss) from continuing operations	354	567	(441)	(43)
Income from discontinued operations, net of tax	<u>--</u>	<u>85</u>	<u>--</u>	<u>178</u>
Net income (loss)	<u>\$ 354</u>	<u>\$ 652</u>	<u>\$ (441)</u>	<u>\$ 135</u>
Net income (loss) per share - Basic and Diluted				
Income (loss) from continuing operations	\$ 0.02	\$ 0.04	\$ (0.03)	\$ --
Income from discontinued operations, net of tax	<u>--</u>	<u>--</u>	<u>--</u>	<u>0.01</u>
Net income (loss) per share - Basic and Diluted	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ (0.03)</u>	<u>\$ 0.01</u>
Weighted average shares outstanding used in computing basic net income (loss) per share	<u>17,274</u>	<u>17,157</u>	<u>17,255</u>	<u>17,151</u>
Weighted average shares outstanding used in computing diluted net income (loss) per share	<u>17,368</u>	<u>17,192</u>	<u>17,255</u>	<u>17,168</u>

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