

LookSmart Reports Third Quarter 2001 Results

U.S. Business Cash Flow Positive; Q3 Results Meet First Call Consensus Estimate

SAN FRANCISCO, Oct. 25 /PRNewswire/ -- LookSmart (Nasdaq: LOOK; ASX: LOK), a global leader in search targeted marketing, today announced financial results for the third quarter ended September 30, 2001.

Financial Highlights:

- Revenue: LookSmart reported third quarter 2001 revenue of \$18.3 million compared to revenues of \$18.9 million in the second quarter of 2001, and \$33.4 million for the third quarter of 2000.
- Listings Growth: Listings continues to be the largest revenue source and grew to \$9.1 million in the third quarter of 2001, an increase of 13 percent from \$8.1 million in the second quarter of 2001, and an increase of 178 percent from \$3.3 million in the third quarter of 2000.
- EBITDA: EBITDA for the third quarter of 2001 was a loss of \$1.4 million, 32 percent narrower than a loss of \$2.0 million in the second quarter of 2001, and a 74 percent improvement from a loss of \$5.3 million in the same quarter a year ago.
- EBITDA EPS: EBITDA EPS for the third quarter of 2001 was (\$0.01).
- Cash Operating Losses: Cash operating losses (i.e., operating profit excluding the effects of non-cash compensation and intangible amortization charges) for the third quarter of 2001 were \$3.0 million, 17 percent narrower than a loss of \$3.6 million in the second quarter of 2001, and a 55 percent improvement from \$6.7 million loss in the same quarter a year ago.
- Cash Operating EPS: Cash operating EPS for the third quarter of 2001, excluding the effects of non-cash compensation and intangible amortization charges, was (\$0.03) meeting First Call consensus estimates.
- Cash: Cash used was \$0.9 million during the quarter, an 85 percent decline from cash usage of \$5.9 million in the second quarter of 2001, and a 93 percent decline from cash usage of \$12.3 million in the third quarter of 2000. Cash used included \$1.8 million for international while U.S. business operations contributed a positive \$0.9 million to cash flow. LookSmart had a balance of \$43.2 million in unrestricted cash and \$40.0 million in restricted cash at the end of the third quarter.



"With the U.S. business contributing \$862,000 to cash flow combined with strong cash management overseas, LookSmart ended the third quarter with a healthy unrestricted cash balance of more than \$43 million," said Dianne Dubois, chief financial officer of LookSmart. "We have built a business model which positions LookSmart for strong profitability as we achieve scale.

"In an effort to provide a simpler and more transparent view of LookSmart's business, we've outlined four key metrics for the investment community to follow LookSmart's progress," said Dubois. "We've also simplified how we report our results by moving to an EBITDA methodology to truly represent our cash operating position. By tightly managing costs and maintaining a sharp focus on the core listings business, LookSmart is well positioned to continue managing through this challenging economic environment."

Search Targeted Marketing -- Online Marketing That Works

As Internet marketing continues to shift away from untargeted banner advertising to more effective options, marketers are faced with the challenge of finding advertising tools that work. Search targeted marketing is one way for marketers to maximize their investments on the Web. LookListings matches qualified leads with marketers through Internet search queries, providing solid returns for LookSmart's customers.

LookSmart's LookListings is attractive to marketers due to its comprehensive offering, the large volume of leads that search targeted marketing provides from search queries, and the performance-based economics of listings. Through LookListings

distribution to partner sites, such as Microsoft's MSN, AltaVista, iWon, Ask Jeeves, Netscape, Time Warner, Juno and Prodigy, LookSmart is driving large volumes of highly targeted traffic and generating low cost-per-leads for customers.

New LookListings customers in the third quarter included Office Depot, Ameritrade, Weight Watchers, Kaplan and Orbitz. These brand name companies join LookSmart's existing LookListings customer base including Dell, REI, Sharper Image, Gap, Amazon.com, Spiegel, eBay and OfficeMax.

"We're very pleased that our core U.S. business is generating growing positive cash flow and that even in a difficult external climate, we continue to attract new customers of the caliber of Office Depot, Weight Watchers and Ameritrade," said Evan Thornley, chairman and chief executive officer of LookSmart. "We continue to be fundamentally optimistic about the search targeted marketing space and believe that patient, disciplined execution will be rewarded. With our strong financial position, we can afford to invest in the next generation of search targeted marketing products and technologies. As these investments become available to our customers and distribution partners, we believe they will bring growth to LookSmart in the medium term."

Campaign Management Technology Advance

This month LookSmart announced the licensing of the technology and hiring of the senior management team of Primary Knowledge -- an online marketing business intelligence firm. Peter Adams, CEO of Primary Knowledge joined LookSmart as CTO.

"Accessing the Primary Knowledge technology and, more importantly, the team that built it, enables us to meet known customer needs better and quicker. We will now be able to offer industry leading campaign management and reporting to our customers about nine months earlier than we originally planned," said Thornley.

Management Team Additions

In addition to the Primary Knowledge team, LookSmart also recently announced the appointment of Dianne Dubois, formerly vice president finance -- North America for E*TRADE as chief financial officer. In addition, Martin Turner, formerly vice president and managing director of Compuserve, was appointed as CEO of BTLookSmart.

"Our ability to attract this caliber of senior management is to me the strongest forward indicator of future success," said Thornley.

Business Segment Highlights

Listings

Listings generated revenues of \$9.1 million in the third quarter of 2001 versus \$8.1 million in the second quarter of 2001, an increase of 13 percent. Listings revenue accounted for 50 percent of revenues, representing the largest revenue stream for LookSmart for the second consecutive quarter. LookListings accounted for \$6.6 million and small business revenue accounted for \$2.5 million of third quarter revenues.

Advertising

In the third quarter of 2001, advertising revenue was \$5.2 million, compared to \$7.4 million in the second quarter of 2001 and \$19.0 million in the third quarter of 2000. Advertising revenue represented 29 percent of total revenue in the third quarter of 2001 compared to 57 percent for the same period of the previous year.

Licensing

Licensing revenue was \$3.4 million in the third quarter of 2001 compared to \$2.9 million in the second quarter of 2001 and \$6.4 million in the third quarter of 2000. Third quarter 2000 licensing revenue included revenue generated from additional projects beyond original contract provisions.

International

LookSmart's joint venture with BT in Europe and Asia, BTLookSmart, follows the same business model as LookSmart in the U.S. Cash investments in all LookSmart's international markets totaled \$1.8 million in the third quarter of 2001.

Earnings Conference Call

LookSmart will hold a conference call today to discuss its third quarter results at 3:00 p.m. PDT, 6:00 p.m. EDT, and 8:00 a.m. October 26, 2001 Australian EST. The call will also be webcast live at <http://aboutus.looksmart.com>. For more information about the call, please contact Investor Relations at 415-348-7185 or investor@looksmart.net.

About LookSmart

LookSmart helps more than 50,000 businesses harness the power of search targeted marketing to generate qualified leads. LookSmart commercial search listings enable customers to reach 77 percent* or nearly four out of five U.S. Internet users, through top portals and ISPs including Microsoft's MSN, Excite@Home, AltaVista, Netscape Netcenter, Inktomi, Prodigy, Juno, CNN, Road Runner, Cox Interactive Media, InfoSpace (Go2Net, Dogpile, MetaCrawler) and Ask Jeeves. As publisher of the

world's most widely distributed search directory, LookSmart is the only company that provides both pay-for-placement and paid inclusion search listing platforms, to meet the needs of medium and large advertisers. BTLookSmart, LookSmart's joint venture with BT, deploys LookSmart directories and provides search targeted marketing solutions in the U.K., France and Asia-Pacific. LookSmart is based in San Francisco, with offices in Los Angeles, New York, Detroit, Montreal, London, Melbourne and Sydney. For more information, please visit www.LookSmart.com.

Media Metrix June 2001 Digital Media Audience Ratings

Forward-Looking Statements

Except for the historical information contained herein, this press release contains forward-looking statements that involve risks and uncertainties. Words such as "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," and variations of these words or similar expressions are intended to identify forward-looking statements. Also, any statements that refer to expected revenues from existing and new products, time lines for roll-out of new products, changes in advertising yields, future expectations, industry projections or other characterizations of future events or circumstances, including assumptions underlying these projections, are forward-looking statements. These statements are not guarantees of future performance and are subject to risks and uncertainties. Our future results may differ from the results discussed or forecasted due to various factors, such as the potential failure of businesses, Web sites and Internet users to use our targeted advertising and listings products at projected rates; the possibility that listings revenues will not continue to grow as they have in recent quarters; the potential failure to expand successfully in international markets; the possibility that BT customers will not choose to use the LookSmart directory at rates sufficient to recoup our costs; the possible failure to continue to expand the LookSmart network and our traffic base at projected rates; the possibility of an unexpected increase in costs, expenses or other factors contributing to our burn rate; and the possibility that we may not reach operating profitability as early as projected, if at all. In addition you should read the risk factors detailed in our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission. Please note that we undertake no obligation to revise or update publicly any forward-looking statements for any reason. "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.



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