LookSmart Reports Record Fourth Quarter Earnings And Achieves Net Profitability

Revenues Up 65%; Net Income of $3.4 Million Excluding Net Gain Related to BT LookSmart Settlement

SAN FRANCISCO, Jan 28, 2003 /PRNewswire-FirstCall via COMTEX/ --

LookSmart (Nasdaq: LOOK; ASX: LOK), a global leader in search, today announced financial results for the fourth quarter and fiscal year ended December 31, 2002.

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    Financial Highlights:
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Revenue Grows 65%: LookSmart reported fourth quarter 2002 revenue of $31.3 million, a 65 percent increase from the fourth quarter 2001, a 31 percent sequential increase over revenues of $23.8 in the third quarter 2002, and significantly higher than the Company's expectation of $27.0 million.

Company Reaches Net Profitability: Under GAAP, LookSmart's net income for the fourth quarter 2002 was $34.6 million or $0.33 per diluted share, which includes a net gain of $32.6 million for the retirement of the debt related to the BT LookSmart joint venture and $1.4 million of costs incurred for the restructuring of joint venture operations. Without these two items, LookSmart's net income for the fourth quarter 2002 was $3.4 million or $0.03 per diluted share. This is the first quarter of GAAP profitability in the Company's history. This compares to a net loss of ($11.1) million, which includes an asset impairment charge of $4.1 million, or ($0.12) per share for the fourth quarter 2001, and a net loss of ($0.5) million or ($0.00) per share for the third quarter 2002.

Modified EBITDA Increases 119%: LookSmart's Modified EBITDA (earnings before interest, tax, depreciation, amortization and certain other items) was a record $6.0 million or $0.06 per diluted share in the fourth quarter, exceeding the Company's expectations of $0.05 per share. Modified EBITDA increased 119 percent from $2.7 million or $0.03 per share for the comparable year ago quarter, and increased 59 percent from $3.8 million or $0.04 per share for the third quarter 2002. Modified EBITDA for the year was $14.4 million, or $0.14 per diluted share, compared to ($7.1) million or a loss of ($0.08) per share for fiscal 2001.

Listings Revenue Up 126%: Listings revenue of $27.3 million grew 126 percent from the fourth quarter 2001, and increased 45 percent sequentially from the third quarter 2002. Large business listings revenue increased to $23.3 million in the fourth quarter, a 147 percent increase from the comparable year ago quarter and a 46 percent increase over $15.9 million for the third quarter 2002. Small business listings rose to $4.0 million, a 40 percent sequential increase from $2.8 million in the third quarter 2002. Listings revenue now represents 87 percent of LookSmart's total revenue.

Paid Clicks Rise 155%: During the fourth quarter paid clicks grew to 160 million, up 155 percent from the year-ago period and up 33 percent from the prior quarter's 120 million clicks. Average revenue per click, or the average cost-per-click to advertisers, was $0.17, consistent with the prior quarter.

Successful Settlement of BT LookSmart Debt: On December 4, 2002 LookSmart and BT Group (BT, formerly British Telecommunications, plc) agreed to restructure their joint venture, BT LookSmart. LookSmart agreed to pay BT $3.5 million from its unrestricted cash and one million shares of LookSmart common stock in exchange for the complete resolution of the joint venture and the related debt of $40.2 million. In addition, LookSmart returned $1.5 million in restricted cash to BT (the remaining proceeds of the loan), and LookSmart and BT will share equally any restructuring costs. The net impact of this transaction was a gain of $32.6 million.

Continued Strong Cash Balance: Cash and short-term investments were $51.3 million as of December 31, 2002. This is the result of $3.1 million of cash generated during the quarter, less the $3.5 million cash payment made to BT.

"LookSmart's rapid financial growth over the past several quarters is a strong validation of the value of the paid inclusion model for merchants and distribution partners, and of LookSmart's leadership in this sector," said Dianne Dubois LookSmart's chief financial officer. "The successful resolution of the BT LookSmart debt leaves us with a very strong balance sheet, and we are pleased to continue to report significant top line revenue growth, a tight control on expenses, and for the first time in the company's history, a net profit."

Business Highlights:

"This was a strong quarter for LookSmart on all fronts, driven by exceptional new customer acquisition rates, increased spend levels by existing customers, and an overall up tick in the adoption level of paid inclusion among online advertisers," said Jason Kellerman, chief executive officer of LookSmart. "LookSmart continues to make strategic investments in its search and paid inclusion platforms.

These investments are already paying off, given our recent financial results, and are positioning us well for future growth."

Listings Growth

LookSmart's listings revenue growth in both the large and small business segments was highlighted by the addition of 131 new large businesses and approximately 7000 new small business listings. A strong holiday season for online merchants also contributed to LookSmart's revenue growth this quarter, as an ever-increasing number of consumers continue to find products and services through search.

In the large business segment, significant new customers for the quarter include Toyota, Hyatt, Nexium and Nautilus Group. These businesses join existing blue-chip customers such as Amazon.com, Banana Republic, Bank of America, eBay, Federal Express, Lands' End, Motorola, Nestle USA, Patagonia, Radio Shack, REI, Staples and Wal-Mart.

In the small business segment, the Company now has more than 33,000 active, paying small business listings, up 26 percent from the prior quarter.

Product Development

Since acquiring the WiseNut technology, LookSmart has made significant improvements to the relevancy of its search results. Since April 2002, the Company has expanded the number of Web documents crawled to more than 2.5 billion documents and has grown the index by 33 percent to approximately 1.1 billion documents. LookSmart also improved the rate at which the WiseNut index is refreshed by more than 40 percent.

In addition, the Company added several important features and functionality to its Japanese search engine (WiseNut Japan). These improvements include: a 50 percent faster refresh rate for the entire index, with daily updates of key documents; 20 percent growth in the number of documents indexed; and algorithm improvements, including improved proximity matching.

International Expansion

LookSmart announced that it would assume control of the BT LookSmart international operations in the United Kingdom and Japan, beginning in the first quarter of 2003. These operations will mirror the Company's business model in the US. LookSmart's management will provide more details on its international strategy as well as positive guidance for growth and profitability in fiscal 2003 on its conference call later today.

Conference Call

LookSmart will host a conference call at 5:00 p.m. ET today (9:00 a.m. Australian ET, January 29, 2003) to discuss the results. To listen to the call from the U.S., dial 1-800-219-6110; from Australia, dial 1-800-730-220. A replay of the call will be available until Thursday, January 30, 2003, 11:59 p.m. PT. To access the replay from the U.S., dial 1-800-405-2236 and enter passcode 520146#; from outside the U.S., dial 1-303-590-3000 and enter passcode 520146#. The call will also be available live by webcast on LookSmart's Investor Relations Web site at http://www.shareholder.com/looksmart/ .

About LookSmart

LookSmart helps businesses of all sizes harness the power of search to generate cost-effective sales leads. LookSmart search listings enable businesses to reach 77 percent* or nearly four out of five U.S. Internet users, through top portals and ISPs including Microsoft's MSN, About.com, AltaVista, Netscape Netcenter, Road Runner, Cox Interactive Media, InfoSpace (Excite, Dogpile, MetaCrawler, WebCrawler), CNET's Search.com and search services such as Inktomi. LookSmart is based in San Francisco, California, with offices in New York, Los Angeles, Detroit, Montreal, London, Tokyo, Melbourne and Sydney. For more information, please visit www.LookSmart.com.

*Media Metrix, July 2002 Digital Media Audience Ratings

Forward-Looking Statements

This press release contains forward-looking statements, such as references to future plans for restructuring of our international joint venture, expansion into new markets and product areas, future growth rates and financial results, industry projections or other characterizations of future events or circumstances. 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 will not complete the restructuring of our international joint venture in a timely manner, that we may not maintain profitability in future quarters, we may fail to derive sufficient revenues from new and existing products to meet our financial goals; that our customers or distribution partners may decide to modify or terminate their relationships with us; or that we may have an unexpected increase in costs, expenses or other factors contributing to our burn rate. In addition, you should read the risk factors detailed in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q 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 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.

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LOOKSMART, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS - GAAP BASIS
(In thousands, except per share amounts)

	Three Months Ended 31-Dec		Twelve Months Ended 31-Dec	
	2001	2002	2001	2002
Revenues:				
Listings	$12,063	$27,256	$35,714	$74,659
Advertising	3,009	432	22,855	6,097
Licensing	3,398	3,564	14,868	14,699
Ecommerce	528	--	9,523	573
Total revenues	18,998	31,252	82,960	96,028
Cost of revenues:				
Listings	3,331	13,068	8,869	31,723
Advertising	1,182	1,348	5,116	5,598
Ecommerce	240	--	5,799	64
Total cost of revenues	4,753	14,416	19,784	37,385
Gross profit	14,245	16,836	63,176	58,643
Operating expenses:				
Sales and marketing	6,318	4,986	40,822	20,786
Product development	5,841	5,851	30,124	23,139
General and administrative	1,867	2,477	10,698	10,261
Amortization of goodwill	905	--	4,630	--
Asset impairment and restructuring charges	4,049	--	15,840	--
Total operating expenses	18,980	13,314	102,114	54,186
Income/(Loss) from operations	(4,735)	3,522	(38,938)	4,457
Non-operating income (expenses)	(3,974)	30,944	(17,521)	24,367
Income/(Loss) from continuing operations before income taxes	(8,709)	34,466	(56,459)	28,824
Income taxes & minority interest	(78)	103	(133)	80
Income/(Loss) from continuing operations	(8,787)	34,569	(56,592)	28,904
Loss on discontinued operations	(2,297)	--	(2,975)	(972)
Net income/(loss)	(11,084)	34,569	(59,567)	27,932
Add back to calculate Modified EBITDA:				
Depreciation **	1,729	1,431	6,633	6,056
Amortization of goodwill and intangibles	1,080	426	6,113	1,474
Amortization of deferred stock compensation **	608	233	3,236	1,838
Stock compensation related to variable options **	--	372	--	538
Non-operating (income)expenses	3,974	(30,944)	17,521	(24,367)
Asset impairment and restructuring charges	4,049	--	15,840	--
Income taxes & minority interest	78	(103)	133	(80)
Loss on discontinued operations	2,297	--	2,975	972
	13,815	(28,585)	52,451	(13,569)
Modified EBITDA	$2,731	$5,984	($7,116)	$14,363

** Refer to next page for breakdown by operating expense category

LOOKSMART, LTD.
CONSOLIDATED STATEMENTS OF
OPERATIONS - GAAP BASIS

(In thousands, except per share amounts)

	Three Months Ended 31-Dec		Twelve Months Ended 31-Dec	
	2001	2002	2001	2002
Net income/ (loss) per common share:				
Modified EBITDA income /(loss) per share - Basic	$0.03	$0.06	($0.08)	$0.15
Modified EBITDA income /(loss) per share - Diluted	$0.03	$0.06	($0.08)	$0.14
Basic net income(loss) per share				
Income/(Loss) from continuing operations	($0.10)	$0.35	($0.62)	$0.30
Loss from discontinued operations	($0.02)	$0.00	($0.03)	($0.01)
Net income/(loss)	($0.12)	$0.35	($0.65)	$0.29
Diluted net income(loss) per share				
Income/(Loss) from continuing operations	($0.10)	$0.33	($0.62)	$0.28
Loss from discontinued operations	($0.02)	$0.00	($0.03)	($0.01)
Net income/(loss)	($0.12)	$0.33	($0.65)	$0.27
Weighted average shares outstanding - Basic	92,313	98,603	91,815	96,874
Weighted average shares outstanding - Diluted	92,313	105,212	91,815	103,197
Depreciation detail				
Cost of revenues	$503	$299	$2,026	$1,716
Sales and marketing	166	127	664	542
Product development	977	948	3,571	3,546
General and administrative	83	57	372	252
Total depreciation	$1,729	$1,431	$6,633	$6,056
Amortization of deferred stock compensation detail				
Cost of revenues	--	--	--	--
Sales and marketing	290	95	1,652	833
Product development	267	123	1,170	901
General and administrative	51	15	414	104
Total amortization of deferred stock compensation	$608	$233	$3,236	$1,838
Stock compensation related to variable options				
Cost of revenues	--	($6)	--	($5)
Sales and marketing	--	116	--	170
Product development	--	155	--	232
General and administrative	--	107	--	141
Total stock compensation related to variable options	--	$372	--	$538
Net income (loss)	($11,084)	$34,569	($59,567)	$27,932
Less specific items:				
Asset impairment and restructuring charges	4,049	--	15,840	--
Looksmart share of joint venture restructuring charges	--	1,430	--	1,430
Gain on debt extinguishment	--	(32,558)	--	(32,558)
Net income (loss) excluding specific items	($7,035)	$3,441	($43,727)	($3,196)

Note: In accordance with generally accepted accounting principles, the three and twelve months ended December 31, 2001 have been restated to reflect the results of the Futurecorp subsidiary, which was disposed of on March 13, 2002, as discontinued operations.

LOOKSMART, LTD

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

	31-Dec-01	31-Dec-02
ASSETS		
Cash	$29,766	$47,696
Short-Term Investments	14,346	3,568
Total Unrestricted Cash and Short-Term Investments	44,112	51,264
Restricted Cash	3,728	--
Accounts Receivable, net	9,294	15,852
Other Current Assets	3,667	3,914
Total Current Assets	60,801	71,030
Property, Plant and Equipment, net	10,272	9,404
Goodwill and Intangibles, net	9,969	15,034
Other Assets	5,060	5,086
Total Assets	$86,102	$100,554
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$0	$104
Accounts Payable	2,323	3,333
Deferred Revenue - current portion	9,152	7,798
Other Current Liabilities	14,647	19,513
Total Current Liabilities	26,122	30,748
Long Term Liabilities	36,336	1,904
Total Liabilities	62,458	32,652
Total Equity	23,644	67,902
Total Liabilities and Stockholders' Equity	$86,102	$100,554

SOURCE LookSmart, Ltd.

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