

As filed with the Securities and Exchange Commission on July 27, 1999

Registration No. 333-80581

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Amendment No. 1

to

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

LOOKSMART, LTD.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

7373
(Primary Standard Industrial
Identification No.)

13-3904355
(I.R.S. Employer
Classification Number)

LookSmart, Ltd.
487 Bryant Street
San Francisco, CA 94107-1316
(415) 597-4850

(Address, including zip code, and telephone number, including area code, of
Registrant's principal executive offices)

Evan Thornley
Chief Executive Officer
LookSmart, Ltd.
487 Bryant Street
San Francisco, CA 94107-1316
(415) 597-4850

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

Copies to:

Hank V. Barry, Esq.
Esq.
Gail C. Husick, Esq.
Kelly Ames Morehead, Esq.
Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
94025
Palo Alto, California 94304
(650) 493-9300

William H. Hinman, Jr.,
Danielle Carbone, Esq.
Shearman & Sterling
1550 El Camino Real
Menlo Park, California
(650) 330-2200

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Aggregate Offering Price Per Share | Proposed Maximum Aggregate Offering Price | Amount of Fee(2) |
|--|----------------------------|---|---|------------------|
| Common Stock (\$0.001 par value)..... | 13,800,000 | \$13.00 | \$179,400,000 | \$49,874 |

(1) Includes 1,800,000 shares that the Underwriters have the option to purchase to cover over-allotments, if any.

(2) Of this total, \$41,700 was previously paid pursuant to Rule 457(o) under the Securities Act. Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(a) under the Securities Act.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated July 27, 1999.

12,000,000 Shares

LookSmart, Ltd.

Common Stock

This is an initial public offering of shares of common stock of LookSmart, Ltd. All of the 12,000,000 shares of common stock are being sold by LookSmart.

Prior to this offering, there has been no public market for the common stock. LookSmart expects that the initial public offering price will be between \$11.00 and \$13.00. Application has been made for quotation of the common stock on the Nasdaq National Market under the symbol "LOOK".

See "Risk Factors" on page 7 to read about certain factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed on the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

| Total | Per Share | |
|--|-----------|-------|
| ----- | ----- | ----- |
| Initial public offering price..... | \$ | \$ |
| Underwriting discount..... | \$ | \$ |
| Proceeds, before expenses, to LookSmart..... | \$ | \$ |

To the extent that the underwriters sell more than 12,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 1,800,000 shares from LookSmart at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares on , 1999.

Goldman, Sachs & Co.

BancBoston Robertson Stephens

Hambrecht & Quist

Prospectus dated , 1999.

DESCRIPTION OF ARTWORK

[LookSmart logo.]

[The gatefold includes a centered picture of a screen shot of LookSmart's homepage with the heading, "a better way to look." On either side of the picture are captioned statements and graphics illustrating LookSmart's features. To the left of the centered picture, the captioned statements and graphics are as follows]:

Find exactly what you're looking for: LookSmart's Categories contain 800,000 quality websites, and grow larger each day. Our staff of professional editors scours the Internet for the best websites, then sorts them into a logical, easy-to-use format. Our goal is to provide "all the good stuff on the Internet, with none of the bad." Together, LookSmart Search, LookSmart Categories, and LookSmart Live! ensure that one way or another your search will be successful.

[Picture of a screenshot of a link from LookSmart's homepage.]

Easy, intuitive, helpful categories: Even more impressive than the size and quality of our directory is its clear, explicit organization. LookSmart Categories make it easier to find the "best stuff." Our cascading menus help quickly narrow your search. Plus you can see the path you've taken at any point along the way.

[Boxed representation of editor web site summaries.]

Our editors help summarize each site: Most search engines deliver hundreds (sometimes thousands) of website listings. With LookSmart, our editors actually review the content of each selected website. This means every LookSmart result comes with a succinct summary, so you can find what you're looking for quicker.

[To the right of the centered picture, the captioned statements and graphics are as follows]:

What advertisers are looking for: A new study reveals that women are now the driving force in the growth of Internet buying.* Users of looksmart.com skew 61% female.** That translates into a highly attractive audience for advertisers, and a strong potential source of revenues for LookSmart. * Nielsen/CommerceNet, April, 1999. ** NPD research, Winter, 1999.

[Picture of a screenshot of a link from LookSmart's homepage.]

An industry first--a personalized response: LookSmart Live! is the first online search service of its kind. Now you can ask a very specific question, and get a personalized answer via email. Each question is handled individually by one of our search editors. It's people helping people find things on the Internet.

Heading: looksmart Radio.

The talk of the Internet: looksmart Radio provides highly differentiated, educational content focused on the daily Internet needs and interests of the "New Media Family." Subjects include news, search tips, interviews with celebrities and lifestyle experts, Internet stock reports, horoscopes, website reviews and more. All in an easy to access, "always on" audio format.

PROSPECTUS SUMMARY

This summary does not contain all of the information that you should consider before investing in our common stock. You should read the following summary together with the more detailed information regarding LookSmart and the common stock being sold in this offering and our financial statements and notes to those statements appearing elsewhere in this prospectus. Except as stated in the financial statements or as specified in this prospectus, the presentation of information in this prospectus reflects a three-for-two split of the outstanding shares of common and preferred stock completed in July 1999, assumes the conversion of all LookSmart's preferred stock into common stock as of the date of closing of this offering and assumes that the underwriters do not exercise the option issued to them by us to purchase additional shares in the offering.

LookSmart

Our Business

We are a leading category-based Internet directory provider that has assembled what we believe to be the largest collection of high-quality, granular content on the Internet. Our LookSmart directory contains over 800,000 unique URLs in over 60,000 categories. Our directory is organized in an easy- to-navigate format that is designed to appeal to both novice and sophisticated Internet users. Additionally, we are an Internet navigation service provider that chooses not to list pornographic or hate material.

We distribute our proprietary directory to a large number of Internet users through LookSmart-owned Internet properties and through our strategic alliances. Our Internet properties, including looksmart.com, target the rapidly emerging user demographic of female household purchase decision-makers that we call the New Media Family, and generate advertising and electronic commerce revenues. We broaden the reach of the LookSmart directory through syndication and licensing of our content. We currently provide our directory to leading Internet portals, including The Microsoft Network, Netscape Netcenter, Excite@Home and Alta Vista, and 220 Internet service providers, including IBM.net and NetZero. In addition, users can access our content and services through a network of over 600,000 website affiliates. In May 1999, more than 43 million individual Internet users accessed looksmart.com and the websites of our licensing and syndication affiliates, according to Media Metrix.

Our Market Opportunity

As the amount of content on the Internet grows, users, advertisers, content providers, navigation services, and on-line businesses face a growing challenge of finding an organizing layer that can successfully match content producers with end users. Our business provides solutions to the specific challenges of each of these constituencies.

The Navigation Solution. Our category-based Internet directory helps users find what they need by organizing what we believe to be the largest collection of high-quality, granular content into an easy-to-use navigation format.

The Audience and Advertising Solution. Through looksmart.com, we seek to package the LookSmart directory with other appropriate content and functionality to provide a simple, compelling experience for the New Media Family. Looksmart.com's benefits include intuitive navigation, an

inoffensive content environment and differentiated visual design, content, commerce and community

functionality. By targeting the New Media Family, we offer advertisers a unique opportunity to reach female household purchase decision-makers. In addition, we offer advertisers the ability to place their advertisements on category and key word search results pages.

The Business Solution. We offer content providers, navigation services and online businesses a variety of solutions.

. We leverage our database by syndicating, licensing and distributing our proprietary content to leading Internet portals, websites and other media companies, and we provide Internet service providers with a full content solution for their users.

. We offer services that help both new and existing businesses optimize their online presence, including website enhancement services for webmasters and seminars and services that enable small and mid-size business owners to sell their products and services over the Internet.

. We offer a variety of websites that allow buyers and sellers to find each other. These websites include rewardmall.com, an affinity Internet shopping mall site, and "Buy it On the Web", an Internet shopping website that promotes and sells over 20 "As Seen on TV" products.

Our Strategy

Our strategy is to be the leading category-based Internet directory service for global and local information on the Internet and to derive multiple revenue streams by leveraging our directory asset. Key elements to our growth strategy include:

Expand Collection of High-Quality, Granular Content. We intend to expand both the number of high-quality URLs included in our directory, as well as the number of categories into which we classify the URLs by continually adding new websites, communities and ecommerce environments, deleting outdated links and updating editorial annotations.

Build the LookSmart Brand and Audience. To enhance business and consumer awareness of our brand, we plan to pursue an extensive brand development initiative through mass market and targeted advertising. Our consumer branding investments will focus specifically on reaching our target New Media Family audience.

Utilize LookSmart Content to Drive Multiple Revenue Streams. We intend to leverage our unique assets--the LookSmart directory and the people and processes that create it--and monetize them by generating revenues through online advertising, syndication and licensing, Internet outsourcing and ecommerce.

Pursue Strategic Acquisitions and Alliances. We plan to pursue acquisitions and alliances to strengthen our technology, broaden our audience reach and capture new distribution channels or open new revenue streams.

Expand into Select International Markets. As one of only a few companies that have created a significant presence in the United States Internet market with beginnings outside the United States, we believe we are well positioned to enter major international markets in a locally-relevant, culturally-sensitive manner.

Corporate Information

We are a Delaware corporation with our principal executive offices located at 487 Bryant Street, San Francisco, CA 94107-1316. Our telephone number is (415) 597-4850. Our fiscal year ends on December 31. We maintain a world wide website at www.looksmart.com. The reference to our world wide web address does not constitute incorporation by reference of the information contained at this website. The LookSmart logo is a registered trademark of LookSmart, and LookSmart Live! and New Media Family are service marks of LookSmart. All other brand names and trademarks appearing in this prospectus are the property of their respective holders.

The Offering

| | |
|---|---|
| Shares offered by LookSmart..... | 12,000,000 shares |
| Shares outstanding after this offering(1).. | 88,359,138 shares |
| Proposed Nasdaq National Market Symbol..... | "LOOK" |
| Use of proceeds..... | General corporate purposes, including working capital, marketing and promotional activities, new product development, increased personnel and potential acquisitions. |

(1) Based on shares outstanding as of June 30, 1999, including 12,478,673 shares of common stock expected to be issued upon exercise of outstanding warrants immediately prior to the closing of this offering. The following shares are excluded from this number: 11,861,003 shares of common stock issuable upon the exercise of options outstanding under our 1998 Stock Plan and 3,516,661 shares of common stock issuable upon exercise and conversion of outstanding warrants.

Summary Consolidated Financial Information

(in thousands, except per share amounts)

| | Fiscal Year Ended | | Six Months | Pro Forma | Pro Forma |
|---|----------------------|----------------------|---------------------------|--|---|
| | December 31, 1997 | December 31, 1998 | Ended June 30, 1999 | Year Ended December 31, 1998 (1) | Six Months Ended June 30, 1999 (1) |
| Consolidated Statement of Operations Data: | | | | | |
| Net revenues..... | \$ 949 | \$ 8,785 | \$ 18,058 | \$ 20,142 | \$ 21,921 |
| Loss from operations.... | (7,329) | (11,898) | (18,770) | (18,389) | (21,490) |
| Net loss..... | (7,514) | (12,858) | (18,233) | (19,351) | (20,953) |
| Net loss per share, basic and diluted..... | \$ (0.08) | \$ (0.68) | \$ (0.86) | \$ (0.91) | \$ (0.88) |
| Weighted average shares, basic and diluted..... | 91,589 | 18,790 | 21,265 | 21,340 | 23,815 |
| Pro forma net loss per share, basic and diluted..... | | \$ (0.31) | \$ (0.33) | \$ (0.43) | \$ (0.38) |
| Pro forma weighted average shares, basic and diluted..... | | 41,080 | 55,496 | 45,497 | 55,496 |

At June 30, 1999

| Adjusted(2) Consolidated Balance Sheet Data: | Actual | Pro Forma As |
|--|----------|-----------------|
| Cash and cash equivalents..... | \$42,731 | \$177,288 |
| Working capital..... | 26,693 | 161,250 |
| Total assets..... | 89,360 | 223,917 |
| Long-term debt and capital lease obligations, net of current portion..... | 322 | 322 |
| Total stockholders' equity..... | \$59,979 | \$194,536 |

(1) Pro forma financial information reflects the acquisition of BeSeen.com, Inc. and the asset purchase transactions with Guthy-Renker Internet, LLC and ITW NewCorp, Inc. See the unaudited pro forma combined financial information and the notes thereto included elsewhere in this prospectus.

(2) As adjusted to reflect the sale of 12,000,000 shares of our common stock at an assumed offering price of \$12.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed. In that case, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks Related to Our Business

We have a history of net losses and expect to continue to incur net losses

We have incurred net losses since our inception, including a net loss of approximately \$18.2 million for the six months ended June 30, 1999. As of June 30, 1999, we had an accumulated deficit of approximately \$41.5 million. We expect to have increasing net losses and negative cash flow for the foreseeable future. The size of these net losses will depend, in part, on the rate of growth in our advertisers, syndication and licensing revenues and on the level of our expenses. We expect to spend significant amounts to build our brand awareness through marketing and promotion, develop our international business, fund new product development and enhance the content and features of our website. As a result, we expect that our operating expenses will increase significantly in the near term and, consequently, we will need to generate significant additional revenues to achieve profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

Our quarterly revenues and operating results may fluctuate due to the timing of delivery of URLs under our Microsoft contract and other factors, which may negatively affect our stock price

The terms of our agreement with Microsoft Corporation could cause our quarterly revenues and operating results to fluctuate significantly. Under this agreement, we license our database to Microsoft and we are obligated to increase the number of unique URLs included in our database every six months by pre-defined amounts. Microsoft has the right to determine the criteria for a portion of these URLs. We recognize quarterly revenues under this agreement based on the number of URLs added to our database during the quarter relative to the total number of URLs we are required to add to our database during the relevant six-month period. As a result, to the extent that we satisfy our database update obligations unevenly, the revenues we recognize may be skewed on a quarter-to-quarter basis. Because the six-month contractual measurement periods end on June 5 and December 5 of each year, our second and fourth quarters may include revenues from more than one six-month contractual measurement period. This may result in additional quarter-to-quarter fluctuations in revenues.

Our quarterly operating results may also fluctuate significantly as a result of a variety of other factors that could affect our revenues or expenses in any particular quarter. These factors include:

- . the level of user traffic on our website and the demand for our Internet navigation services;
- . the level of demand for Internet advertising and changes in the advertising rates we charge;
- . the level and timing of our licensing and syndication activities;
- . seasonality of our advertising revenues, as Internet usage is typically lower in the first and third quarters of the year;
- . timing of revenues recognition under long-term contracts;
- . technical difficulties and systems downtime or failures; and
- . costs related to acquisitions and integration of technologies or businesses.

We may, from time to time, make pricing, service or marketing decisions that may adversely affect our profitability in a given quarterly or annual period. Our expense levels are based in part on expectations of future revenues and, to a large extent, are fixed. We may be unable to adjust spending quickly enough to compensate for any unexpected revenues shortfall. In addition, we generate a significant portion of our revenues from our contracts with advertisers, which generally range from one to three months.

Due to the above factors, we believe that period-to-period comparisons of our operating results are not necessarily meaningful. You should not rely on period-to-period comparisons as indicators of our future performance. If our operating results in any future period fall below the expectations of securities analysts and investors, the market price of our securities would likely decline.

We may need additional capital in the future to support our growth and such additional financing may not be available to us

We believe that the net proceeds from this offering, together with our current cash balance, will provide adequate liquidity to fund our operations and meet our other cash requirements for at least two years following this offering. We cannot, however, assure you that such resources will be sufficient for anticipated or unanticipated working capital and business development requirements. We may seek to raise additional funds through public or private debt or equity financings in order to:

- . take advantage of favorable business opportunities, including geographic expansion or acquisitions of complementary businesses or technologies;
- . develop and upgrade our technology infrastructure;
- . develop new service offerings;
- . respond to competitive pressures; or
- . take advantage of current favorable market conditions.

We cannot assure you that any additional financing we may need will be available on terms favorable to us, or at all.

Our management and internal systems may be inadequate to handle the growth of our business

Since January 1, 1998, our workforce has grown substantially, from 63 employees at that date to 465 employees on June 30, 1999. In addition, many members of our management team have only recently been hired, including our Chief Financial Officer, our Senior Vice President of Business Development and our Senior Vice President of Marketing. These individuals do not have significant experience working with LookSmart or the rest of our management team. We anticipate that our Senior Vice President of Engineering will resign prior to the end of 1999, and as a result, we will need to hire a replacement. Implementation of our growth strategy requires that we hire additional highly-qualified personnel in the near term, particularly in our engineering, product development and sales operations.

Our growth has placed, and our anticipated growth will continue to place, a significant strain on our management, our engineering and product development staff, and our internal accounting, operational and administrative systems. To manage future growth, we must continue to improve these systems and expand, train, retain and manage our employee base. If our systems, procedures and controls are inadequate to support our operations, our expansion could be slowed. We cannot assure you that we will be able to manage our growth effectively, and any failure to do so could harm our business.

A failure to manage and integrate businesses we acquire could divert management's attention and harm our operations

If we are presented with appropriate opportunities, we intend to make additional acquisitions of, or significant investments in, complementary companies, products or technologies to increase our technological capabilities and expand our service offerings. Acquisitions may divert the attention of management from the day-to-day operations of LookSmart. In addition, integration of recently acquired companies and future acquisitions into LookSmart could be expensive, time consuming and may strain our resources. In particular, retaining key management and technical personnel during the transition period following an acquisition may be difficult. For these reasons, we may not be successful in integrating any acquired businesses or technologies and may not achieve anticipated revenues and cost benefits.

Acquisitions may also result in dilution to our existing stockholders if we issue additional equity securities and may increase our debt. We may also be required to amortize significant amounts of goodwill or other intangible assets in connection with future acquisitions, which would adversely affect our operating results.

We derive a significant amount of our revenues from Microsoft, and if our relationship with Microsoft suffers, our business could be harmed

In December 1998, we entered into an agreement with Microsoft Corporation for the licensing of our database content, including regular database updates. For the six months ended June 30, 1999, revenues from Microsoft under this agreement accounted for 53.3% of our total revenues. A portion of the revenues we receive under this agreement is subject to refund if we fail to provide the stated number of URLs. Microsoft has the right to use our database during the term of the agreement and, after the agreement is terminated, to continue to use the content we delivered during the term of the agreement. Microsoft also has the right to sublicense these rights to others, both during and for up to two years after the term. Microsoft may not sublicense its rights to a specified group of companies. We believe that this specified group includes all of our current competitors. After June 8, 2000, our obligation to deliver database updates to Microsoft under this agreement may be terminated by either party for any reason on six months' notice.

Our revenues and income potential are unproven and our business model is continuing to evolve

We were formed in July 1996 and launched looksmart.com in October 1996. Because of our limited operating history, it is extremely difficult to evaluate our business and prospects. You should evaluate our business in light of the risks, uncertainties, expenses, delays and difficulties associated with starting a new business, many of which may be beyond our control. In addition, we compete in the relatively new and rapidly evolving Internet navigation market, which presents many uncertainties that could require us to further refine or change our business model.

Our success will depend on many factors, including our ability to:

- . build and maintain brand awareness;
- . increase the amount of traffic to looksmart.com;
- . establish and maintain syndication and licensing relationships without jeopardizing the LookSmart brand;
- . attract and retain a large number of advertisers from a variety of industries; and
- . expand our service offerings, including ecommerce and LookSmart Live!SM.

Our failure to succeed in one or more of these areas may harm our business, results of operations and financial condition.

We may be unable to address capacity constraints on our software and infrastructure systems in a timely manner

We have developed custom, proprietary software for use by our editors to create the LookSmart directory and we also use proprietary software and software developed by others to distribute the LookSmart directory and associated pages, and to serve advertising to those pages. This software may contain undetected errors, defects or bugs or may fail to operate with other software applications. Demands on our software and infrastructure systems resulting from substantial increases in editorial activity or the number of URLs in our directory, customization of the database for syndication, substantially increased traffic and the addition of new features or changes in our directory structure could result in temporary capacity constraints and technical difficulties with our website or with the websites of our syndication partners. If we fail to address these constraints and difficulties in a timely manner, our advertising, syndication and other revenues will decline and our business will suffer.

We have developed a new structure for the presentation of data from the LookSmart directory, and a new design for our website, which we introduced in June 1999. This new software may have unforeseen errors, and users of the website may interact with the directory in ways we have not anticipated, causing fewer advertisements to be displayed or fewer clickthroughs on advertisements that are displayed.

In addition, as we expand our service offerings and enter into new business areas such as ecommerce, we may be required to significantly modify, enhance and expand our software and infrastructure systems. If we fail to accomplish these tasks in a timely manner, our business will suffer.

The operating performance of our systems is critical to our business and reputation

Any system failure, including network, software or hardware failure, that causes an interruption in our service or a decrease in the responsiveness of our website could result in reduced user traffic, a decline in revenues and damage to our reputation and brand name. In addition, our users and customers depend on Internet Service Providers, or ISPs, online service providers and other website operators for access to the LookSmart directories. Each of these service providers has experienced significant outages in the past and could experience outages, delays and other operating difficulties in the future due to system failures.

In February 1999, we entered into an agreement with Frontier GlobalCenter to house our hardware equipment at Frontier's Santa Clara, California facility. We do not presently maintain fully redundant systems at separate locations, so our operations depend on Frontier's ability to protect the systems in its data center from earthquake, fire, power loss, water damage, telecommunications failure, vandalism and similar events. Although Frontier provides comprehensive facilities management services, Frontier does not guarantee that our Internet access will be uninterrupted, error-free or secure. We have not developed a disaster recovery plan to respond to system failures. We maintain property insurance for our equipment, but do not maintain business interruption insurance. We can not guarantee that our insurance will be adequate to compensate us for all losses that may occur as a result of any system failure.

If our branding strategy is unsuccessful, we may be unable to increase future revenues

We believe that increasing the recognition of the LookSmart brand is critical to our success. We intend to invest a significant amount of our resources to increase brand awareness, brand loyalty and

brand equity through various media. We cannot assure you that our brand awareness strategy will be successful or that our strategy of licensing or syndicating all or part of our directory to others will not undermine our efforts to establish the LookSmart brand.

We face risks related to expanding into new services and business areas, particularly LookSmart Live! and ecommerce

To increase our revenues, we will need to expand our operations by promoting new or complementary products and services and by expanding into new business areas. In July 1999, we introduced an interactive Internet navigation assistance service called LookSmart Live!, and we are continuing to develop and implement various ecommerce services, including facilitating transactions and providing ecommerce solutions for small to mid-sized businesses. These products and services will require both modification of existing software and systems and the creation or acquisition of new software and systems. We may lack the managerial, editorial and technical resources necessary to expand our service offerings. These initiatives may not generate sufficient revenues to offset their cost. In addition, as we continue to expand our offerings in these and other markets, we will require significant additional managerial and financial resources that may strain our existing resources.

LookSmart Live! is capital and human resource intensive, which may make it difficult for us to scale that service quickly. If we are unable for any reason to expand the service in line with consumer demand, our reputation and business could suffer. The costs of providing our LookSmart Live! service may exceed the incremental advertising revenues, if any, that it generates. In addition, the market for ecommerce is extremely competitive and we have limited experience in this market.

If we are unable to compete effectively in the Internet navigation market, our business and profitability will suffer

We compete in the Internet navigation market, which is relatively new and highly competitive. We expect competition to intensify as the market evolves. Many of our competitors have longer operating histories, larger user bases, longer relationships with consumers, greater brand or name recognition and significantly greater financial, technical and marketing resources than we do. As a result of their greater resources, our competitors may be in a position to respond more quickly to new or emerging technologies and changes in consumer requirements and to develop and promote their products and services more effectively than we do.

The barriers to entry into some segments of the Internet navigation market are relatively low. As a result, new market entrants pose a threat to our business. We do not own any patented technology that precludes or inhibits competitors from entering the Internet navigation market. Existing or future competitors may develop or offer technologies or services that are comparable or superior to ours, which could harm our business.

We currently face direct competition from companies that provide directory content, search algorithms, content aggregation and licensing, demographically and content-targeted advertising, Internet outsourcing, and services that enable online ecommerce capabilities. As we expand the scope of our Internet services, we will compete directly with a greater number of websites and other media companies across a wide range of different online services, including:

- . subject-specific websites where competitors may have advantages in expertise and brand recognition;
- . services and software applications that allow a user to search the databases of several directories and catalogs simultaneously;

- . database vendors that offer information search and retrieval capabilities with their core database products;
- . online merchant hosting services; and
- . Internet-based email and instant messaging services.

To date, the Internet navigation market has been characterized by competition for consumer traffic. One aspect of this competition has been the payment of consumer referral fees to Internet browser companies and other frequently used websites such as portals and ISPs. If these companies fail to provide these referrals, or the market for these referrals becomes more competitive so that navigation companies are required to pay more for these referrals, our business and profitability could be harmed.

Recent acquisitions and strategic alliances involving our competitors could reduce traffic to our website

Recently, a number of significant acquisitions and strategic alliances have been completed or announced in the Internet navigation market involving some of our competitors, including:

- . Yahoo, Inc.'s acquisition of GeoCities;
- . The Walt Disney Company's acquisition of a significant interest in Infoseek Corporation;
- . America OnLine, Inc.'s acquisition of Netscape Communications Corporation;
- . @Home Network's acquisition of Excite, Inc.;
- . NBC Internet Inc.'s acquisition of an interest in Snap! LLC, a subsidiary of CNET, and proposed merger with XOOM, Inc.; and
- . CMGI's control of Alta Vista Company.

Although the effect of these acquisitions and strategic alliances on our business cannot be predicted with certainty, these transactions could provide our competitors with significant opportunities to increase traffic on their websites and expand their service offerings, which could drive down traffic for us. In addition, these transactions align some of our competitors with companies, including television networks, that are significantly larger and have substantially greater marketing and technical resources and name recognition than LookSmart. As a result, these competitors may be in a position to respond more quickly to new or emerging technologies and changes in consumer requirements and to develop and promote their products and services more effectively than we do.

The success of our business will depend, in part, on our ability to sell advertising on our looksmart.com website and on the ability of our affiliates to generate traffic

For the year ended December 31, 1998 and the six months ended June 30, 1999, advertising revenues accounted for 63.3% and 31.1% of our total revenues. We expect that revenues from advertising will continue to represent a significant portion of our total revenues for the foreseeable future. Our ability to generate advertising revenues will depend on a number of factors, including:

- . the development of the Internet as an advertising medium;
- . the level of traffic on our looksmart.com website;
- . our ability to effectively manage our advertising inventory, particularly our category-based advertising inventory; and
- . our ability to achieve, measure and demonstrate to advertisers the unique user demographic characteristics of visitors to our website.

In addition, our ability to earn advertising revenues depends on the number of advertising impressions per search and the number of clickthroughs. Because we believe category searches result in a greater number of advertising impressions per search and a higher number of click-throughs than are characteristic of keyword searches, if users decide to use keyword searches more frequently than category searches, our advertising revenues could decline.

We may be unable to execute our business model in international markets

A key component of our strategy is to expand our operations into selected international markets, including Europe, Australia, Asia and Latin America. To date, we have limited experience in developing and syndicating localized versions of our service offerings in international markets, and we may be unable to execute our business model in these markets. In addition, international markets have experienced lower levels of Internet usage and advertising compared to the United States. In pursuing our international expansion strategy, we face several additional risks, including:

- . uncertainty of market acceptance in new regions due to language, cultural or other factors;
- . difficulties in staffing and managing international operations;
- . unexpected changes and differences in regulatory requirements, particularly as applied to Internet services;
- . export controls relating to encryption technology;
- . foreign currency fluctuations;
- . potentially adverse tax consequences; and
- . ability to find and develop relationships with international partners.

Our failure to address these risks could inhibit or preclude our efforts to expand our business in international markets.

Our future success depends on our ability to attract and retain key personnel

Our future success depends, in part, on the continued service of our key management personnel, particularly Evan Thornley, our Chairman and Chief Executive Officer, and Tracey Ellery, our President. Mr. Thornley and Ms. Ellery are husband and wife. The loss of the services of either of these individuals, or the services of other key employees, could adversely affect our business. LookSmart does not have employment agreements with Mr. Thornley and Ms. Ellery.

Our success also depends on our ability to identify, attract, retain and motivate highly skilled technical, editorial and marketing personnel. In particular, we are currently conducting a search for a senior technology executive. Competition for such personnel, particularly in the San Francisco Bay area, is intense, and we cannot assure you that we will be able to retain our key employees or that we can identify, attract and retain highly skilled personnel in the future.

Many of our customers are emerging Internet companies that represent credit risks

We expect to derive an increasingly significant portion of our revenues from the sale of advertising and other services and the syndication of our directory and navigation services to other Internet companies, including website owners, Internet portals and regional ISPs. In addition, we are targeting some of our Internet and ecommerce enabling services to small and medium-sized businesses. Many of these companies have limited operating histories, are operating at a loss and have limited access to capital. If our customer base experiences financial difficulties or fails to experience commercial success, our business will suffer.

Our business would suffer if we were held liable for information made available on our website

We make information available on our looksmart.com website and on the websites of our affiliates, including through our syndication and licensing activities. The availability of this content through our website or other websites linked from our website could subject us to claims for defamation, negligence, copyright or trademark infringement or other theories based on the nature and content of the information made available. These types of claims have been brought, sometimes successfully, against online service providers in the past. Even if such claims do not result in liability to us, we could incur significant costs in investigating and defending against them and in implementing measures to reduce our exposure to this kind of liability. Our insurance may not cover potential claims of this type or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed.

The Year 2000 Problem could significantly disrupt our operations, causing a decline in revenues and cash flow and other difficulties

Many currently installed computer systems and software products are unable to distinguish between twentieth century dates and twenty-first century dates. As a result, many companies' software and computer systems may need to be upgraded or replaced to comply with these Year 2000 requirements. Our business is dependent on the operation of numerous systems that could potentially be impacted by Year 2000 related problems. If our vendors' systems, including those of our hosting services provider, are not Year 2000 compliant, or if our efforts to make our systems Year 2000 compliant are not successful or if our contingency plan fails, then our critical systems will fail and our business will be harmed. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Readiness Disclosure".

Our results will be negatively affected if we fail to adapt to rapid technological change and evolving industry standards

To be successful, we must adapt to rapidly changing Internet technologies and evolving industry standards. The introduction of new technologies, including new or superior Internet navigation methods, or the emergence of new industry standards and practices could render our systems and proprietary software obsolete and unmarketable or require us to make significant unanticipated investments to adapt to these changes. We must also enhance our existing service offerings and introduce new products and services to address the changing needs and demands of Internet users and our customers. If we are unable to respond to any of these developments on a timely and cost-effective basis, our business will be adversely affected.

We may face intellectual property infringement claims that may be costly to resolve

The services we provide include custom-developed software and software developed by others. Although we do not believe that our services infringe on any proprietary rights of others, we cannot assure you that others will not assert claims against us in the future or that these claims will not be successful. We could incur substantial costs and diversion of management resources to defend any claims relating to proprietary rights. These costs and diversions could harm our business. In addition, we are obligated under some agreements to indemnify other parties as a result of claims that we infringe on the proprietary rights of others. If we are required to indemnify parties under these agreements, our business could be harmed. If any party asserts a claim against us relating to proprietary technology or information, we may be forced to seek licenses to this intellectual property. We cannot assure you, however, that we will be able to obtain licenses on commercially reasonable terms, or at all. Any failure to obtain the necessary licenses or other rights could harm our business.

The anti-takeover provisions of Delaware's general corporation law and provisions of our charter and bylaws may discourage a takeover attempt

Our Restated Certificate of Incorporation, Amended and Restated Bylaws and provisions of Delaware law may deter or prevent a takeover attempt, including an attempt that might result in a premium over the market price for our common stock. See "Description of Capital Stock--Effect of Provisions of the Certificate of Incorporation and Bylaws and the Delaware Anti-Takeover Statute".

Risks Related to Our Industry

Our business prospects depend on the use of the Internet as an advertising medium

Many potential advertisers and advertising agencies have only limited experience advertising on the Internet and have not devoted a significant portion of their advertising expenditures to Internet advertising. We expect downward pressure on advertising prices in the industry generally due to the often increasing amount of advertising inventory coming onto the Internet from other sources. As the Internet evolves, advertisers may find Internet advertising to be a less effective means of promoting their products or services relative to traditional advertising media and may not continue to allocate funds to Internet advertising. Acceptance of the Internet among advertisers will depend, to a large extent, on the level of use of the Internet by consumers and upon growth in the commercial use of the Internet. In addition, advertising on the Internet is at an earlier stage of development in international markets compared to the United States.

Intense competition for advertising revenues exists on high-traffic websites, which has resulted in significant price competition. Currently, a variety of pricing models for selling advertising on the Internet exists. Several of the most widely used pricing models are based on the number of impressions or clickthroughs, the duration over which the advertisement is displayed or the number of keywords to which the advertisement will be linked. It is difficult to predict which pricing model, if any, will emerge as the industry standard. This uncertainty makes it difficult to project our future advertising rates and revenues that we may generate from advertising. In addition, filter software programs that limit or prevent advertising from being displayed on a user's computer are available. It is unclear whether this type of software will become widely accepted. If it does, it would negatively affect Internet-based advertising.

Our business prospects depend on the continued growth in the use of the Internet

Our business is substantially dependent upon continued growth in the use of the Internet as a medium for obtaining information and engaging in commercial transactions. Internet usage may decline and ecommerce may be inhibited for various reasons, including:

- . user inability or frustration in locating and accessing required information;
- . actual or perceived lack of security of information;
- . limitations of the Internet infrastructure resulting in traffic congestion, reduced reliability or increased access costs;
- . inconsistent quality of service;
- . governmental regulation;
- . uncertainty regarding intellectual property ownership; and
- . lack of appropriate communications equipment.

We believe that capacity constraints caused by growth in the use of the Internet may, unless resolved, impede further growth in Internet use. Further, the adoption of the Internet for commerce and communications, particularly by those individuals and companies that have historically relied upon traditional means of commerce and communication, generally requires the understanding and acceptance of a new way of conducting business and exchanging information. Companies that have already invested substantial resources to conduct commerce and exchange information through other means may be particularly reluctant or slow to adopt a new Internet-based strategy that may make their existing personnel and infrastructure obsolete. If any of the foregoing factors affects the continuing growth in the use of the Internet, our business could be harmed.

Government regulation and legal uncertainties could harm our business

Any new law or regulation pertaining to the Internet, or the application or interpretation of existing laws, could decrease demand for our services, or increase our cost of doing business, or both. Currently, there are a number of laws and regulations that pertain to communications or commerce on the Internet, and it is likely that the number of such laws and regulations will increase. These laws or regulations may relate to liability for information retrieved from or transmitted over the Internet, online content regulation, user privacy, taxation and the quality of products or services provided over the Internet. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark and trade secret is uncertain and developing.

Privacy related regulation of the Internet could adversely affect our business

Internet user privacy has become an issue both in the United States and abroad. The Federal Trade Commission and government agencies in some states and countries have been investigating some Internet companies regarding their use of personal information. Any regulations imposed to protect the privacy of Internet users may affect the way in which we currently collect and use personal information.

The European Union has adopted a directive that imposes restrictions on the collection and use of personal data, guaranteeing citizens of European Union member states various rights, including the right of access to their data, the right to know where the data originated and the right to recourse in the event of unlawful processing. We cannot assure you that this directive will not adversely affect our activities in European Union member states.

As is typical with most websites, our website places information, known as cookies, on a user's hard drive, generally without the user's knowledge or consent. This technology enables website operators to target specific users with a particular advertisement and to limit the number of times a user is shown a particular advertisement. Some currently available Internet browsers allow users to modify their browser settings to remove cookies at any time or to prevent cookies from being stored on their hard drives. In addition, some Internet commentators, privacy advocates and governmental bodies have suggested limiting or eliminating the use of cookies. If this technology is reduced or limited, the Internet may become less attractive to advertisers and sponsors.

We retain information about our users. If others were able to penetrate our network security and gain access to, or in some other way misappropriate, our users' information, we could be subject to liability. These claims could result in litigation, our involvement in which, regardless of the outcome, could require us to expend significant financial resources. We could incur additional expenses if new regulations regarding the use of personal information are introduced or if any regulator chooses to investigate our privacy practices.

New tax treatment of companies engaged in Internet commerce may adversely affect the Internet industry and our company

Tax authorities on the international, federal, state and local levels are currently reviewing the appropriate tax treatment of companies engaged in Internet commerce. New state tax regulations may subject us to additional state sales, income and other taxes. A recently passed federal law places a temporary moratorium on certain types of taxation on Internet companies. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet; although, if imposed, such taxes would likely increase our cost of doing business and may adversely affect our business and results of operations.

Risks Related to this Offering

Directors, officers and significant stockholders will have substantial influence over LookSmart after this offering, which could prevent or delay a change in control

Immediately following this offering, our executive officers, directors, and significant stockholders and the funds for whom they act as general partner, collectively will own approximately 66% of the outstanding shares of our common stock.

If these stockholders choose to act or vote together, they will have the power to control matters requiring stockholder approval, including the election of our directors, amendments to our certificate of incorporation and approval of significant corporate transactions, including mergers or sales of all of our assets. This concentration of ownership may have the effect of discouraging others from making a tender offer or bid to acquire LookSmart at a price per share that is above the then-current market price.

Management has broad discretion in spending the proceeds of this offering and may do so in ways with which our stockholders disagree

We have no specific allocations for the net proceeds of this offering. We intend to use the proceeds for general corporate purposes, including working capital to fund anticipated operating losses, to add engineers, editorial and marketing personnel and to expand our advertising efforts. We may also use a portion of the proceeds to acquire or invest in other complementary businesses. Consequently, management has broad discretion over the ways in which the proceeds will be used. Because of the number and variability of factors that determine our use of the net proceeds of the offering, we cannot assure you that such uses will not vary substantially from our current intentions or that stockholders will agree with the uses we have chosen.

Our stock price could be extremely volatile and investors may not be able to resell their shares at or above the initial offering price

The stock market has experienced significant price and volume fluctuations, and the market prices of technology companies, particularly Internet-related companies, have been extremely volatile. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance. The initial public offering price for the shares is determined by negotiations between us and representatives of the underwriters and may not be indicative of prices that will prevail in the trading market. You may not be able to sell your shares at or above the initial public offering price as a result of a number of factors including:

- . changes in the market valuations of other Internet companies;
- . actual or anticipated quarterly fluctuations in our operating results;
- . changes in financial estimates by securities analysts;

. announcements of technological innovations or new products or services by us or our competitors; or

. conditions or trends in the Internet.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs and the diversion of management's attention and resources.

Future sales of our common stock may cause our stock price to decline

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market after the closing of this offering, or the perception that such sales could occur. These sales or the possibility that they may occur also could make it more difficult for us to raise funds through future offerings of common stock. The number of shares of common stock available for sale in the public market is limited by restrictions under federal securities laws. In addition, LookSmart, our executive officers and directors and all of our existing stockholders have agreed that they will not sell any shares of common stock without the consent of Goldman, Sachs & Co. for 180 days after the date of this prospectus. Goldman, Sachs & Co. may, however, in their sole discretion and without notice, release all or any portion of the shares from the restrictions in the lock-up agreements.

After this offering, we will have 88,359,138 shares of common stock outstanding. These shares will become eligible for future sale in the public market as follows:

| Number of Shares Resale ----- | Date Eligible for Public |
|--|--|
| ----- | ----- |
| 12,000,000 | Date of this prospectus |
| 5,161,547 | 180 days after the date of this prospectus |
| 71,197,591 | At various times thereafter |

We intend to register on Form S-8 registration statements under the Securities Act a total of 21,600,000 shares of common stock reserved for issuance under the 1998 Stock Plan and 1999 Employee Stock Purchase Plan. None of these shares may be sold for a period of 180 days after the date of this prospectus. As of the date of this prospectus, there were outstanding options to purchase 11,861,003 shares of common stock, of which 854,500 were exercisable. See "Management--Employee Benefit Plans" for a more complete description of our employee benefit plans and the grants of options.

The holders of approximately 42,208,612 shares of outstanding common stock and warrants to purchase 13,475,335 shares of common stock have rights to require us to register those shares under the Securities Act beginning six months after the closing of this offering. See "Description of Capital Stock-- Registration Rights".

You will suffer immediate and substantial dilution

The initial public offering price per share of our common stock will significantly exceed our net tangible book value per share, or the value of our assets after deducting our liabilities. Accordingly, investors purchasing shares in this offering will suffer immediate and substantial dilution of their investment. Any additional equity financing may cause investors to experience dilution.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. 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", "Business", as well as in the prospectus generally. We used words such as "believes", "intends", "expects", "anticipates", "plans", and similar expressions to identify forward-looking statements. 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 the risks described above and elsewhere in this prospectus.

USE OF PROCEEDS

The net proceeds to us from the sale of the 12,000,000 shares of common stock are estimated to be approximately \$132,720,000 at an assumed initial public offering price of \$12.00 per share (approximately \$152,808,000 if the underwriters' over-allotment option is exercised in full), after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

The net proceeds of this offering will be used for general corporate purposes, including working capital, marketing and promotional activities, new product development and increased personnel. In addition, we may, if appropriate opportunities arise, use a portion of the net proceeds to acquire or invest in complementary companies, product lines, products or technologies. However, we have no present understandings, commitments or agreements with respect to any potential acquisition or investment with any other party. We have not determined the amounts we plan to spend on any of the uses described above or the timing of these expenditures. Pending these uses, we will invest the net proceeds in investment grade, interest-bearing securities.

DIVIDEND POLICY

We have never paid cash dividends on our capital stock. We currently intend to retain all future earnings to finance the expansion of our business and do not anticipate paying cash dividends on our common stock in the near future.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 1999:

. on an actual basis;

. on a pro forma basis as of such date to reflect the conversion upon the closing of this offering of all outstanding shares of preferred stock into 40,263,868 shares of common stock and the exercise of warrants to purchase 12,478,673 shares of common stock immediately prior to the closing of this offering; and

. on a pro forma as adjusted basis to reflect the sale of the common stock in this offering at an assumed initial public offering price of \$12.00 per share, after deducting the estimated underwriting discounts and offering expenses payable by us.

This information should be read in conjunction with LookSmart's financial statements and related notes thereto included elsewhere in this prospectus.

June 30, 1999

| Adjusted | (unaudited) | | |
|---|----------------|-----------|-----------------|
| | Actual | Pro Forma | Pro Forma As |
| | ----- | ----- | |
| | (in thousands) | | |
| Long-term debt and capital lease obligations, current portion..... | \$ 142 | \$ 142 | \$ 142 |
| Long-term debt and capital lease obligations, net of current portion..... | 322 | 322 | 322 |
| Stockholders' equity: | | | |
| Preferred Stock, \$0.001 par value: | | | |
| Series A, 11,888 shares authorized: 7,853 shares issued and outstanding, actual; none authorized, issued and outstanding, pro forma and pro forma as adjusted..... | 8 | -- | |
| Series B, 14,328 shares authorized: 14,328 shares issued and outstanding, actual; none authorized, issued and outstanding, pro forma and pro forma as adjusted..... | 14 | -- | |
| Series C, 12,590 shares authorized: 12,084 issued and outstanding, actual; none authorized, issued and outstanding, pro forma and pro forma as adjusted..... | 12 | -- | |
| Series 1 Junior, 6,000 shares authorized: 6,000 shares issued and outstanding, actual; none authorized, issued and outstanding, pro forma and pro forma as adjusted..... | 6 | -- | |
| Preferred Stock, \$0.001 par value; 5,000 shares authorized, pro forma as adjusted; no shares issued and outstanding, actual, pro forma and pro forma as adjusted..... | | | -- |
| Common Stock, \$0.001 par value, 105,194 shares authorized; 23,615 issued and outstanding, actual; 76,359 issued and outstanding, pro forma; 200,000 shares authorized; 88,359 issued and outstanding, pro forma as adjusted(1)..... | 24 | 77 | 89 |
| Additional paid-in capital..... | 105,146 | 112,088 | 244,808 |
| Warrants..... | 7,114 | 1,996 | 1,996 |
| Unearned compensation..... | (10,811) | (10,811) | (10,811) |
| Cumulative translation adjustment..... | (29) | (29) | (29) |
| Accumulated deficit..... | (41,505) | (41,505) | (41,505) |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 59,979 | 61,816 | 194,548 |
| | ----- | ----- | ----- |
| Total capitalization..... | \$ 60,443 | \$ 62,280 | \$195,012 |
| | ===== | ===== | ===== |

(1) The following shares at June 30, 1999 are excluded from the number:
11,861,003 shares of common stock issuable upon exercise of outstanding options and 3,516,661 shares of common stock issuable upon the exercise of warrants. See "Management--Benefit Plans" and "Description of Capital Stocks--Warrants".

DILUTION

On a pro forma basis after giving effect to the conversion of all outstanding shares of preferred stock into shares of common stock in connection with this offering, our pro forma net tangible book value as of June 30, 1999 was \$33,100,000, or \$0.43 per share, of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of common stock outstanding and to be issued upon exercise of warrants upon the closing of this offering, including reflecting the conversion of all outstanding shares of preferred stock into shares of common stock upon the closing of this offering. Without taking into account any other change in our pro forma net tangible book value after June 30, 1999, other than to give effect to the sale of 12,000,000 shares of common stock offered by this prospectus at an assumed initial public offering price of \$12.00 per share and receipt of the estimated net proceeds therefrom, our pro forma net tangible book value as of June 30, 1999 would have been approximately \$165,820,000, or \$1.88 per share. This represents an immediate increase in the net tangible book value of \$1.45 per share to existing stockholders and an immediate dilution of \$10.12 per share to the new investors. If the initial public offering price is higher or lower, the dilution to new investors will be, respectively, greater or less. The following table illustrates this per share dilution.

| | |
|--|--------|
| Assumed initial public offering price per share..... | |
| \$12.00 | |
| Pro forma net tangible book value per share as of June 30, 1999, before this offering..... | \$0.43 |
| Increase per share attributable to new investors..... | 1.45 |
| | ----- |
| Pro forma net tangible book value per share after this offering..... | |
| 1.88 | |
| ----- | |
| Dilution per share to new investors..... | |
| \$10.12 | |
| ===== | |

The following table summarizes, as of June 30, 1999, on a pro forma basis to reflect the adjustments described above, the differences between the existing stockholders and the new investors with respect to the number of shares of common stock purchased from us, the total consideration paid, or to be paid, to us, and the average price per share paid, or to be paid, by existing stockholders and by new investors at the assumed initial public offering price of \$12.00 per share, before deducting the estimated underwriting discounts and offering expenses payable by us:

| Price | Shares Purchased | | Total Consideration | | Average Per Share |
|--------------------------|------------------|---------|---------------------|---------|----------------------|
| | Number | Percent | Amount | Percent | |
| Existing stockholders... | 76,359,138 | 86.4% | \$ 95,158,000 | 39.8% | \$ 1.25 |
| New investors..... | 12,000,000 | 13.6 | 144,000,000 | 60.2 | \$12.00 |
| Total..... | 88,359,138 | 100.0% | \$239,158,000 | 100.0% | |
| | ===== | ===== | ===== | ===== | |

This table assumes that the underwriters do not exercise their over-allotment options. This table also assumes that no options or warrants were exercised after June 30, 1999. As of June 30, 1999, there were outstanding options to purchase an aggregate of 11,861,003 shares of common stock at a weighted average exercise price of \$1.17 per share and warrants to purchase 3,516,661 shares of common stock at a weighted aggregate purchase price of \$1.88 per share. If all of these options and warrants had been exercised on June 30, 1999, our net tangible book value on that date would have been \$186,316,000, or \$1.80 per share, the increase in net tangible book value attributable to new investors would have been \$1.37 per share and the dilution in net tangible book value to new investors would have been \$10.20 per share.

SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands except per share amounts)

The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and Notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The consolidated statement of operations data for the period from July 19, 1996, inception, to December 31, 1996 and for the years ended December 31, 1997 and 1998 and the consolidated balance sheet data as of December 31, 1997 and 1998 are derived from our Consolidated Financial Statements which have been audited by PricewaterhouseCoopers LLP independent accountants, and are included elsewhere in this prospectus. The consolidated statement of operations data for the six- month period ended June 30, 1998 and 1999 and the consolidated balance sheet data as of June 30, 1999 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus.

The unaudited selected pro forma financial data of Guthy-Renker Internet, LLC, ITW NewCorp, Inc., and BeSeen.com, Inc. is derived from the unaudited consolidated pro forma combined financial statements of Guthy-Renker Internet, ITW NewCorp and BeSeen.com and should be read in conjunction with the pro forma statements and notes to those statements, which are included elsewhere in this prospectus.

The consolidated pro forma information is presented for illustrative purposes only and is not necessarily indicative of future operating results or financial position.

| | Period from | Year Ended | | | Six Months Ended | | Pro Forma | Pro Forma |
|---|---|----------------------|----------------------|------------------|------------------|---------------------------------------|--|-----------|
| | July 19, 1996 (Inception) to December 31, 1996 | December 31, 1997 | December 31, 1998 | June 30, 1998 | June 30, 1999 | Year Ended December 31, 1998(1) | Six Months Ended June 30, 1999(1) | |
| | | | | | | (unaudited) | (unaudited) | |
| Statement of Operations Data: | | | | | | | | |
| Revenues..... | \$ 3 | \$ 949 | \$ 8,785 | \$ 1,845 | \$ 18,058 | \$ 20,142 | \$ 21,921 | |
| Cost of revenues..... | 90 | 430 | 1,586 | 495 | 2,754 | 8,247 | 5,169 | |
| Gross profit (loss).... | (87) | 519 | 7,199 | 1,350 | 15,304 | 11,895 | 16,752 | |
| Operating expenses: | | | | | | | | |
| Sales and marketing.... | 1,115 | 3,668 | 10,848 | 3,085 | 16,189 | 14,109 | 17,149 | |
| Product development.... | 915 | 2,605 | 4,427 | 1,144 | 9,567 | 4,517 | 9,651 | |
| General and administrative..... | 504 | 1,165 | 2,746 | 886 | 3,666 | 4,535 | 4,180 | |
| Amortization of goodwill and intangibles..... | 205 | 410 | 605 | 205 | 1,858 | 6,652 | 4,468 | |
| Amortization of unearned compensation..... | -- | -- | 133 | -- | 2,794 | 133 | 2,794 | |
| Write-off of in- process research and development..... | -- | -- | 338 | -- | -- | 338 | -- | |
| Total operating expenses..... | 2,739 | 7,848 | 19,097 | 5,320 | 34,074 | 30,284 | 38,242 | |
| Loss from operations.... | (2,826) | (7,329) | (11,898) | (3,970) | (18,770) | (18,389) | (21,490) | |
| Non-operating income (expense), net..... | (10) | (19) | (814) | (567) | 589 | (816) | 589 | |
| Income taxes..... | (64) | (166) | (146) | (76) | (52) | (146) | (52) | |
| Net loss..... | \$ (2,900) | \$ (7,514) | \$ (12,858) | \$ (4,613) | \$ (18,233) | \$ (19,351) | \$ (20,953) | |
| Basic and diluted net loss per share..... | \$ (0.03) | \$ (0.08) | \$ (0.68) | \$ (0.25) | \$ (0.86) | \$ (0.91) | \$ (0.88) | |
| Weighted average shares outstanding used in computing basic and diluted net loss per share..... | 115,947 | 91,589 | 18,790 | 18,326 | 21,265 | 21,340 | 23,815 | |
| Unaudited pro forma basic and diluted net loss per share(2)..... | | | \$ (0.31) | | \$ (0.33) | \$ (0.42) | \$ (0.38) | |
| Weighted average shares used in computing pro forma basic and diluted net loss per share..... | | | 41,080 | | 55,496 | 45,947 | 55,496 | |
| | December 31, 1996 | December 31, 1997 | December 31, 1998 | June 30, 1999 | | | | |
| (unaudited) | | | | | | | | |
| Balance Sheet Data: | | | | | | | | |
| Working capital (deficit)..... | \$ (429) | \$ (1,125) | \$ (6,507) | \$ 26,693 | | | | |
| Total assets..... | 2,825 | 2,275 | 14,090 | 89,360 | | | | |
| Long-term debt and capital lease obligations, net of current portion..... | -- | 1,500 | 1,500 | 322 | | | | |
| Total stockholders' equity (deficit)..... | 2,091 | (453) | (1,261) | 59,979 | | | | |

(1) Pro forma financial information reflects the acquisition of BeSeen.com and the asset purchase transactions with Guthy-Renker Internet and ITW NewCorp. See the unaudited pro forma combined financial information and the notes thereto included elsewhere in this prospectus.

(2) Unaudited pro forma net loss per share for the year ended December 31, 1998 is computed using the weighted average number of common

shares outstanding, adjusted to include the pro forma effects of the conversion of preferred stock to common stock as if the conversion had occurred on January 1, 1998, or at the date of original issuance, if later.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and the notes to those statements which appear elsewhere in this prospectus. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs, including without limitation forward-looking statements regarding anticipated revenue growth, trends in costs of revenues and operating expenses, international expansion and introduction of additional services. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in "Risk Factors".

Overview

LookSmart is a leading category-based Internet directory provider that has assembled what it believes to be the largest collection of high quality, granular content on the Internet. The LookSmart directory contains over 800,000 unique URLs in over 60,000 categories, organized in an easy-to-navigate format. We distribute our proprietary directory to a large number of Internet users through LookSmart-owned Internet properties and through our strategic alliances. Our Internet properties, including looksmart.com, primarily target a focused demographic of female household purchase decision-makers and generate advertising and ecommerce revenues. We broaden the reach of the LookSmart directory through syndication and licensing of our content. We currently provide our directory to leading Internet portals, such as The Microsoft Network, Netscape Netcenter, Excite@Home and Alta Vista, and to 220 ISPs, including IBM.net and NetZero. In addition, users can access our content and services through a network of over 600,000 website affiliates.

LookSmart was formed in July 1996 as a Delaware corporation under the name of NetGet Ltd. to acquire the business and associated intellectual property of HomeBase Directories Pty Ltd., an Australian company founded by Evan Thornley and Tracey Ellery in October 1995. At that time, The Reader's Digest Association purchased approximately 85% of our outstanding common stock, an investment it held until October 1997 when it exchanged this stock for warrants to purchase 9 million shares of our common stock and a \$1.5 million promissory note. We changed our name to LookSmart, Ltd. in October 1996. In July 1997, we relocated our headquarters from Australia to San Francisco, California.

Prior to July 1997, revenues from our business were incidental and we were primarily focused on investing in editorial resources and building our Internet directory. Until October 1997, our cash requirements were satisfied primarily by funds provided by The Reader's Digest Association and, to a lesser extent, from advertising revenues from sales made through outside sales forces. Our advertising revenues continued to increase during the fourth quarter of 1997 and the first quarter of 1998.

During 1998, we entered into several key operational relationships designed to increase traffic to our website and to expand our directory. In May 1998, we raised a total of approximately \$8.3 million in our Series A and Series B preferred stock financings, marking the beginning of our strategic relationship with Cox Interactive Media in developing web directories for key local United States markets. This infusion of capital allowed us to significantly increase the resources devoted to editorial and product development, establish our own advertising sales force and significantly strengthen our management team.

Also in May 1998, we entered into a one-year traffic contract with Netscape, which has been renewed through July 2000. Under this arrangement, Netscape periodically directs user search traffic to LookSmart for a fixed cost per thousand impressions.

In October 1998, we acquired BeSeen.com, Inc., a leading provider of tools to webmasters, for 6 million shares of our Series 1 Junior preferred stock. The primary purpose of this transaction was to generate traffic and website relationships for LookSmart to increase advertising sales.

In December 1998, we entered into a five-year contract with Microsoft. Under this agreement, we license our database to Microsoft, and we are obligated to increase the number of unique URLs included in our database every six months by pre-defined amounts. Microsoft has the right to determine the criteria for a portion of these URLs. Microsoft paid us an initial non-refundable license fee and committed to a fixed schedule of additional payments for updates. A portion of each update payment is subject to refund if we fail to provide the stated number of URLs. Generally, the difference between any cash received under the contract and revenues recognized is carried as deferred revenues. At June 30, 1999, deferred revenue associated with the Microsoft contract was \$20.7 million. Either party may terminate the contract following the second anniversary of the contract upon six-months notice.

The terms of our agreement with Microsoft could cause our quarterly revenues and operating results to fluctuate significantly. We recognize quarterly revenues under this agreement based on the number of URLs added to our database during the quarter relative to the total number of URLs we are required to add to our database during the relevant six-month contractual measurement period. As a result, to the extent that we satisfy our database update obligations unevenly, the revenues we recognize may be skewed on a quarter-to-quarter basis. Because the six-month contractual measurement periods end on June 5 and December 5 of each year, our second and fourth quarters may include revenues from more than one six-month contractual measurement period. This may result in additional quarter-to-quarter fluctuations in revenues.

In March 1999, we raised approximately \$60 million in our Series C preferred stock round of financing. The proceeds from this financing are being used to increase working capital, to fund operating losses and to enter into potential strategic relationships and acquisitions.

In April 1999, we acquired lines of business and other rights from Guthy-Renker Internet, LLC as part of a strategic alliance between our two companies for \$5 million in cash and 2.55 million shares of LookSmart common stock. Through the acquired business, we provide Internet development seminars and services that are targeted to small business owners. We also receive revenues from Guthy-Renker Corporation's "As Seen on TV" products that are sold online and promoted through television infomercials, and we are entitled to place LookSmart advertising on Guthy-Renker Corporation infomercials.

On June 9, 1999, LookSmart acquired substantially all of the assets of ITW NewCorp, Inc., in exchange for \$5 million and warrants to purchase 420,000 shares of LookSmart common stock. Through this asset purchase, we provide Internet bulletin board services which generate advertising revenue.

In June 1999, we entered into five agreements with three PBS-related entities under which we agreed to sponsor five programs on PBS. The programs are Mystery!, Chefs of Cucina Amore, Great Food, MasterChef USA and Sesame Street. The terms of four of the agreements are for five years, with either party having the right to terminate the agreements after three years. The term of the fifth agreement is for three years and gives LookSmart a right of first refusal for years four and five. During the terms, none of our directory competitors will have the right to sponsor any of the listed programs. LookSmart is committed to pay a total of \$19.25 million during the contract periods to the PBS-related entities if all five agreements remain effective throughout their terms. These payments will be recorded as sales and marketing expense, and generally will be spread equally over the terms of the contracts. The PBS-related entities, in return, have agreed to promote LookSmart on their respective websites. Specifically, the arrangement provides that LookSmart's website is provided a direct link to the PBS website www.pbs.org.

In June 1999, we entered a three-year licensing agreement with Excite@Home. Under this agreement, we will license our database and share advertising revenues with Excite@Home.

Revenues

From inception through mid-1998, we derived substantially all of our revenues from the sale of advertising on our website. In the second half of 1998, we began the licensing and syndication of our database to other Internet- based businesses. We plan to continue to seek additional sources of revenues from the use of our Internet directory, including international sources, premium usage fees and additional ecommerce activities.

Advertising. We generally provide advertisers with one to three-month agreements to serve a minimum number of banner impressions over the term of the agreement. In several cases, we have entered into lengthier agreements. We offer advertisers the ability to specify the category of traffic for their banner advertisements, and we are able to charge premiums on some categories based on advertisers' perception of economic value, including the placement of the advertisement on the page, the demographics of the users who view the page and the size of the audience requesting the page.

We expect advertising revenues to continue to account for a significant portion of our revenues for the foreseeable future. Our ability to maintain current levels of advertising revenue will depend on our ability to re-sign or replace existing advertisers as their contracts expire. We expect downward pressure on advertising prices in the industry generally due to the increasing amount of advertising inventory coming onto the Internet from other sources. Therefore, we expect that any future increases in advertising revenues will depend on our ability to effectively manage our advertising inventory by leveraging our targeted category-based model to charge premium rates and on our ability to grow the inventory availability by increasing traffic to our Internet properties.

We recognize advertising revenues as impressions are delivered over the term of the contract. Prepayments are deferred until the impressions are delivered. Because advertising revenues are often received from advertising agencies that wait until receipt of payment from their own clients before forwarding payment to LookSmart, associated cash flow may lag by as much as one quarter.

In our limited operating history, we have experienced seasonality in advertising revenues with typically weaker demand from advertisers in the first and third quarters. We expect that advertising revenues will continue to be subject to seasonality. In particular, the rate of growth, if any, between the last quarter of one year and the first quarter of the next year tends to be less than the rate of growth experienced between other consecutive quarters. This may be due in part to the fact that the fourth quarter contains increased advertising spending in anticipation of the holiday season.

Because advertising revenues represent a significant portion of our business, fluctuations in advertising revenues due to pricing pressures, the timing of contracts, inventory management, seasonality or other factors can be expected to have a significant effect on our overall operating results. Some of our costs are variable, and therefore would track increases or decreases in advertising revenues. However, other costs are fixed, at least in the short term, and cannot be expected to track fluctuations in advertising revenues. To the extent that costs do not track changes in advertising revenues, fluctuations from this revenues source will have a disproportionately large impact on net income.

Syndication and Licensing. We generate revenues from syndication agreements by sharing with our syndication partners advertising sales revenue associated with traffic referred between the partners and LookSmart. In some cases, our syndication partner receives gross revenues from the advertiser and then makes a payment to LookSmart for our share of those revenues. In other cases, we receive the gross revenues from the advertiser, as described above, and then forward a portion

of these revenues to the applicable syndication partner. We work with our ISP partners to "co-brand", or create partner-specific home pages which have the "look and feel" a partner desires and which provides the ISP subscriber fully-functional access to the LookSmart database. In these cases, LookSmart receives advertising sales revenues from the traffic generated by the ISP partner and compensates the partner, typically on a per impression basis, for this traffic referral. We also license our content database to a number of parties, including Microsoft as described above and Excite@Home. We expect revenues from syndication and licensing to fluctuate from period to period because the revenues from our syndication activities are dependent upon the level of future traffic, the revenues from our licensing activities are dependent upon the particular terms of our licensing arrangements, and the revenues from both syndication and licensing are dependent upon the expiration, renewal and addition of agreements with our partners.

The extent to which fluctuations in syndication and ecommerce revenues will affect our overall operating results will depend on the magnitude of the fluctuations, their underlying cause and their size relative to other sources of revenues. For example, to the extent that such fluctuations are due to changes in the level of traffic, they may magnify the effect of fluctuations in advertising revenues, which is also dependent upon traffic levels. To the extent that they are due to other factors, such as the loss or addition of major contracts, their effect on overall operating results will depend on their timing and size relative to other sources of revenues, which is difficult to predict.

Ecommerce. We began generating ecommerce revenues with our purchase of the business operations of Guthy-Renker Internet in April 1999. Our ecommerce revenue sources include assistance in the development of ecommerce websites, an operational hosting service and placement on the LookSmart Choice Mall virtual shopping mall. We also receive fees from Guthy-Renker Corporation's "As Seen on TV" merchandise that is sold online. While this is a relatively new portion of our business, we expect that it may be seasonal and may fluctuate from period to period. We launched our Rewardmall service in July 1999. This Internet shopping mall features over 25 merchants. We will also offer "Reward Points" for purchases made through this service. Because ecommerce is a relatively new part of our business, we cannot yet accurately predict how fluctuations in this area will affect our overall operating results. Based on our limited experience to date, however, we expect that ecommerce activities may generate lower margins than advertising, syndication and licensing activities.

International. To date, non-United States revenues have comprised less than 2% of our total revenues in any period. These international revenues have been derived exclusively from advertising sales, primarily in Australia and to a lesser extent the United Kingdom. To the extent that our international revenues begin to constitute a larger portion of our total revenues, our financial results may be subject to more volatility. Furthermore, we may incur substantial expenses in expanding our international operations, and increases in associated revenues, if any, may substantially lag behind such expenses.

Expenses

Cost of Revenues. The principal components of cost of revenues are direct costs of hosting ecommerce development seminars and product costs paid in connection with our "As Seen on TV" merchandise sales. These costs will fluctuate with the level of these activities.

Other components of cost of revenues are agency commissions paid to outside advertising sales organizations, personnel costs of our in-house advertising operations employees, equipment depreciation and other expenses relating to hosting advertising operations. We expect these aggregate costs to increase over time in absolute dollars.

Sales and Marketing. Sales and marketing expenses include salaries, commissions and associated costs of employment, overhead and facilities for our sales force, including those personnel responsible for advertising sales, ISP agreements and other business-to-business relationships. These costs are fixed in the short term. In the second and third quarters of 1998, we

experienced a substantial increase in sales and marketing expenses as we began to transition from reliance on outside advertising sales forces, which are accounted for in cost of revenues, to reliance on our in-house advertising sales force, which is accounted for in sales and marketing expenses.

Sales and marketing expenses also include payment to portals, ISP partners and other traffic providers who direct online users to our LookSmart database. Traffic payments can exhibit significant fluctuations from period to period depending on the volume of traffic purchases and the contracted rates. Further, traffic payments as a percentage of revenues can vary significantly depending on the structure of the payment arrangements between us and our affiliates. When a traffic arrangement is structured so that we simply receive a payment from our affiliate, who collects the gross advertising revenues, we record as revenues only the portion of the gross advertising revenues forwarded to us and little or no sales and marketing expense is directly associated with that revenue stream. On the other hand, when a traffic arrangement is structured so that we collect the gross advertising revenues and forward a portion to our affiliate, we record as revenues the entire amount of the gross advertising revenues, and the portion forwarded to the partner is recorded as sales and marketing expense.

Sales and marketing expenses also include the costs of advertising, trade shows and public relations activities. Due to the one-time nature of these expenditures, sales and marketing expenses will be subject to significant fluctuations from period to period. We plan to conduct a consumer branding campaign shortly after this offering that will result in a significant increase in overall sales and marketing costs, both in absolute dollars and as a percentage of revenues. Thereafter, we expect to continue to incur sales and marketing expenses at a greatly increased level as we attempt to establish a dominant brand. Sales and marketing costs have been expensed as incurred.

Product Development. Product development expenses include the editorial development costs of building our content database, the costs associated with the development and licensing of additional website features and engineering costs associated with activities such as improving the development environment, including our proprietary Editorial Support System tool. These costs include salaries and associated costs of employment, overhead and facilities. Software licensing and computer equipment depreciation related to supporting product development functions are also included in product development expenses. These costs are fixed in the short term. Product development costs, including Research and development costs have been expensed as incurred.

We expect product development costs to continue to increase as we increase the size and reach of our database, add more website features and expand our international operations. We also expect that the launch and maintenance of additional services, including the recently launched LookSmart Live!, which may be significantly more resource intensive than many other aspects of our business, may result in increased product development costs.

General and Administrative. General and administrative expenses include corporate overhead costs such as executive management, human resources, finance, legal, investor relations and facilities personnel. These costs include salaries and associated costs of employment, overhead and facilities. General and administrative expenses include consulting and professional service fees which are subject to variability over time. We expect to incur additional general and administrative expenses in the future as required to support an increasing number of employees and expanding international operations, and as a result of becoming a public company.

Unearned Compensation. We have recorded aggregate unearned compensation of approximately \$13.7 million. These amounts were booked in connection with the grant of stock options to employees and directors and represent the difference between the deemed fair value for accounting purposes of the common stock subject to the options at the dates of grant and the exercise price of the related options. The unearned compensation is amortized over the vesting period of the applicable option, typically four years. Amortization of unearned compensation

was \$133,000 for the year ended December 31, 1998, and \$2.8 million for the six months ended June 30, 1999. We expect to amortize additional unearned compensation expenses of \$3.6 million in the remainder of 1999, \$4.2 million in 2000, \$2.1 in 2001, \$738,000 in 2002 and \$60,000 in 2003.

Amortization of Goodwill and Intangibles. We recorded goodwill of approximately \$2.1 million, which primarily represented intellectual property acquired in connection with the acquisition of the predecessor company in 1996, as described above. This amount is being amortized over a five-year period on a straight-line basis. In connection with the acquisition of BeSeen.com, which was completed in the fourth quarter of 1998, we recorded goodwill and intangible assets of approximately \$3.9 million. In connection with the April 1999 and June 1999 asset purchase transactions with Guthy-Renker Internet and ITW NewCorp, we booked goodwill and intangible assets of \$16.5 million and \$9.3 million. These amounts are being amortized over periods from one to five years. We began amortizing the BeSeen.com amount in the fourth quarter of 1998, and the Guthy-Renker Internet and ITW NewCorp amounts in the second quarter of 1999. We expect to amortize approximately \$3.4 million of the remainder in 1999, \$6.5 million in 2000, \$6.2 million in 2001, \$5.6 million in 2002, \$5.5 million in 2003, and \$1.5 million in 2004. Part of our growth strategy is to make additional acquisitions as we identify attractive opportunities. As a result, we expect additional amortization of goodwill and intangibles to occur in future periods.

Income Taxes

Although we have not yet shown profitability on a consolidated basis, tax charges will be incurred in connection with our operations in foreign jurisdictions. We expect that foreign taxes will become more significant with continued overseas expansion.

Results of Operations

The following table sets forth, for the periods indicated, line items from LookSmart's consolidated statements of operations as percentages of revenues:

| | Year Ended December 31, | | Six Months Ended June 30, | |
|--|----------------------------------|--------|---------------------------------|-------|
| | 1997 | 1998 | 1998 | 1999 |
| | | | (Unaudited) | |
| Revenues..... | 100 % | 100 % | 100 % | 100 |
| % | | | | |
| Cost of revenues..... | 45 | 18 | 27 | 15 |
| Gross margin..... | 55 | 82 | 73 | 85 |
| Operating expenses: | | | | |
| Sales and marketing..... | 387 | 123 | 167 | 90 |
| Product development..... | 274 | 50 | 62 | 53 |
| General and administrative..... | 123 | 31 | 48 | 20 |
| Amortization of goodwill and intangibles..... | 43 | 7 | 11 | 10 |
| Amortization of unearned compensation..... | -- | 2 | -- | 16 |
| Write-off of in-process research and development..... | -- | 4 | -- | -- |
| Total operating expenses..... | 827 | 217 | 288 | 189 |
| Loss from operations..... | (772) | (135) | (215) | (104) |
| Non-operating income (expense), net..... | (2) | (10) | (31) | 3 |
| Loss before income taxes..... | (774) | (145) | (246) | (101) |
| Income taxes..... | (18) | (1) | (4) | -- |
| Net loss..... | (792)% | (146)% | (250)% | |
| (101)% | | | | |
| | ==== | ==== | ===== | ===== |

Percentage comparisons relating to 1996 are not meaningful because operations in 1996 were focused primarily on building the database and not generating revenues.

Six Months Ended June 30, 1999 Compared to the Six Months Ended June 30, 1998

Revenues

Our revenues increased 879% to \$18.1 million in the six months ended June 30, 1999 compared to \$1.8 million in the same period of 1998. The largest portion of the increase was due to new revenues of \$9.6 million from licensing in the first half of 1999, principally under the Microsoft contract, and new ecommerce revenues of \$2.8 million resulting from the Guthy-Renker Internet asset purchase transaction in April 1999. In the first six months of 1999, advertising revenues increased by \$3.8 million as a result of increased traffic and better inventory management.

Cost of Revenues

Cost of revenues increased 456% to \$2.8 million for the six months ended June 30, 1999 from \$495,000 for the same period in 1998. A substantial portion of the increase in cost of revenues for the first half of 1999 was attributable to seminar costs and product costs paid as a result of "As Seen on TV" merchandise sales. These costs are a result of the Guthy-Renker Internet asset purchase transaction in April 1999. We have also invested in computer hardware and software and have hired additional advertising operations personnel to manage the traffic and the advertising serving process. The resulting depreciation on the capital expenditures as well as the salaries and benefits costs of additional headcount in advertising operations have contributed to the overall increase in cost of revenues when comparing the six months ended June 30, 1999 to the same period for 1998.

As a percentage of revenues, cost of revenues decreased to 15% for the six months ended June 30, 1999 compared to 27% for the same period in 1998. This decrease can be primarily attributed to economies of scale associated with higher traffic volume and higher yields on saleable traffic and the impact of high margin licensing revenues. To a lesser extent, this decrease was influenced by the shift from reliance on an outside advertising sales force, which is accounted for in cost of revenues, to an in-house sales force, which is accounted for as a sales and marketing expense. As a result of this shift, the overall increase in cost of revenues was partially offset by a decrease in fees paid to the outside advertising agency. Partially offsetting this decrease in cost of revenue as a percentage of revenues is the impact of the inclusion of the Guthy-Renker Internet operations in the results of operations beginning in April 1999. These activities typically operate at lower margins compared to advertising, syndication and licensing.

Operating Expenses

Sales and Marketing. Sales and marketing expenses increased 425% to \$16.2 million for the six months ended June 30, 1999 from \$3.1 million for the same period in 1998. As a percentage of revenues, sales and marketing expenses decreased to 90% for the six month period ended June 30, 1999 from 167% for the same period in 1998. The dollar increase in sales and marketing expenses is attributable to a number of factors. Traffic costs increased approximately \$4.4 million for the first half of 1999 as compared to the same period in 1998 as the result of the growth of our ISP partner program and the impact of our May 1998 traffic agreement with Netscape. Advertising sales costs contributed approximately \$2 million to the increase in sales and marketing as a result of our addition of an advertising sales staff in the second half of 1998 discussed above. Additionally our industry brand marketing campaign, which focused on syndication affiliates and the advertising trade, was launched in 1999, resulting in an increase in marketing expense of approximately \$3 million.

Product Development. Product development expenses increased 736% to \$9.6 million for the six months ended June 30, 1999 from \$1.1 million for the same period in 1998. As a percentage of revenues, product development expenses decreased to 53% for the six month period ended June 30, 1999 from 62% for the same period in 1998. The dollar increase in product development costs is primarily due to a significant increase in editorial, engineering and product design personnel necessary to support our efforts to expand our database.

General and Administrative. General and administrative expenses increased 314% to \$3.7 million for the six months ended June 30, 1999 from \$886,000 for the same period in 1998. As a percentage of revenue, general and administrative expenses decreased to 20% for the six month period ended June 30, 1999 from 48% for the same period in 1998. The dollar increase in general and administrative expenses is primarily due to additional personnel and professional services costs incurred to support the growth of the company, while the decrease as a percentage of revenue was a function of the increased revenue base.

Amortization of Goodwill and Intangibles. We are amortizing goodwill and intangibles as a result of the purchase of intellectual property at our inception in 1996, the BeSeen.com acquisition in October 1998 and the Guthy- Renker Internet and ITW NewCorp asset purchase transactions in April 1999 and June 1999 further described above. Amortization of these assets increased 806% to \$1.9 million for the six months ended June 30, 1999 from \$205,000 for the same period in 1998. The dollar increase was due primarily to the fact that 1999 included the incremental impact of the BeSeen.com acquisition and the Guthy-Renker Internet and ITW NewCorp asset purchase transactions.

Amortization of Unearned Compensation. Amortization of deferred compensation was \$2.8 million for the six months ended June 30, 1999. There was no unearned compensation for the same period in 1998. We began recording unearned compensation in the second half of 1998.

Non-operating Income (Expense), Net. Interest income (expense), net includes interest expense on our debt and capital lease obligations, net of interest income from our cash and cash equivalents. We recorded net interest income of \$597,000 for the six months ended June 30, 1999 compared to net interest expense of \$443,000 for the same period in 1998. The change from net interest expense to net interest income between the two periods is primarily the result of larger cash balances on hand during the six months ended June 30, 1999.

Other income (expense), net includes foreign exchange gains and losses arising from the change in the value of foreign currencies, primarily the Australian dollar, relative to the United States dollar. We recorded other expenses, net, of \$8,000 for the six months ended June 30, 1999 compared to other expenses, net, of \$124,000 for the same period in 1998.

Income Taxes

We recorded income tax expense of \$52,000 for the six months ended June 30, 1999, primarily associated with our Australian operations, compared to \$76,000 for the same period in 1998.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Revenues

Our revenues increased 826% to \$8.8 million in the year ended December 31, 1998 from \$949,000 in the same period of 1997. The largest portion of the increase was due to an additional \$4.6 million of advertising revenues as compared to the 1997 period as a result of increased traffic

and better advertising inventory management. Also contributing significantly to the increase were new revenues of \$3.2 million from licensing in the last half of 1998. Before the third quarter of 1998, database content licensing was not a significant element in our business model.

Cost of Revenues

Cost of revenues increased 269% to \$1.6 million for the year ended December 31, 1998 from \$430,000 for the same period in 1997. As a percentage of revenues, cost of revenues decreased to 18% for the year ended December 31, 1998 compared to 45% for the same period in 1997. Agency commissions paid to outside advertising sales organizations and a one-time finder's fee related to a licensing agreement accounted for a significant portion of the absolute dollar increase. Also contributing to the dollar increase was our addition of advertising operations personnel and depreciation on related ad serving software and hardware beginning in the second half of 1998, discussed above.

Operating Expenses

Sales and Marketing. Sales and marketing expenses increased 196% to \$10.8 million for the year ended December 31, 1998 from \$3.7 million for the same period in 1997. As a percentage of revenues, sales and marketing decreased to 123% for the year ended December 31, 1998 from 387% for the same period in 1997. The dollar increase in sales and marketing expenses is primarily attributable to a \$4.9 million increase in traffic costs as a result of our agreements with Netscape and Alta Vista, which became effective in the second quarter of 1998, and the overall growth of our ISP partner program. Also contributing to this dollar increase was our addition of an advertising sales staff in the second half of 1998.

Product Development. Product development expenses increased 70% to \$4.4 million for the year ended December 31, 1998 from \$2.6 million for the same period in 1997. As a percentage of revenues, product development expenses decreased to 50% for the year ended December 31, 1998 from 274% for the same period in 1997. The dollar increase in product development costs is primarily due to a significant increase in editorial and engineering personnel to accelerate the addition of URLs to our database and due to an increase in product design personnel to add features to our website. The decrease as a percentage of revenues is primarily due to the increased revenue base.

General and Administrative. General and administrative expense increased 136% to \$2.7 million for the year ended December 31, 1998 from \$1.2 million for the same period in 1997. As a percentage of revenues, general and administrative expenses decreased to 31% for the year ended December 31, 1998 from 123% for the same period in 1997. The dollar increase in general and administrative expenses is primarily due to additional personnel and professional services costs incurred to support our growth.

Amortization of Goodwill and Intangibles. Amortization increased 48% to \$605,000 for the year ended December 31, 1998 from \$410,000 for the same period in 1997. The dollar increase in amortization of goodwill and intangibles is the result of the amortization expenses associated with the October 1998 acquisition of BeSeen.com.

Amortization of Unearned Compensation. Amortization of unearned compensation was \$133,000 for the year ended December 31, 1998. There was no unearned compensation for 1997. We began recording unearned compensation in the second half of 1998.

Write-off of In-process Research and Development. In connection with the BeSeen.com acquisition in October 1998, we recorded a \$338,000 one-time charge representing the fair value of acquired in-process research and development.

Non-operating Income (Expense), Net. We recorded net interest expense of \$675,000 for the year ended December 31, 1998 compared to net interest expense of \$16,000 for the same period in 1997. The increase in net interest expense between the two periods is primarily the result of interest expense related to the issuance of warrants with debt, and interest accruals on larger debt balances outstanding in 1998 compared to 1997.

We recorded other expenses, net, of \$139,000 for the year ended December 31, 1998 compared to other expenses, net, of \$3,000 for the same period in 1997.

Income Taxes

We recorded income tax expense of \$146,000 for the year ended December 31, 1998, primarily associated with our Australian operations, compared to \$166,000 for the same period in 1997.

Year Ended December 31, 1997 Compared with the Period from July 19, 1996 (inception) through December 31, 1996

Revenues

Our revenues increased to \$949,000 in the year ended December 31, 1997 from \$3,000 for the period July 19, 1996 (inception) through December 31, 1996. This increase is the result of the launch of our website in late 1996 and the commencement of advertising revenues in 1997.

Cost of Revenues

Cost of revenues increased to \$430,000 for the year ended December 31, 1997 from \$90,000 for the period from July 19, 1996 (inception) through December 31, 1996. Sales commissions to outside sales forces contributed to the increase in cost of revenues when comparing the year ended December 31, 1997 to the period from July 19, 1996 (inception) through December 31, 1996. This increase reflects of the commencement of advertising revenues in 1997.

Operating Expense

Sales and Marketing. Sales and marketing expenses increased to \$3.7 million for the year ended December 31, 1997 from \$1.1 million for the period from July 19, 1996 (inception) through December 31, 1996. The dollar increase in sales and marketing expenses is attributable to a full year of operations in 1997 compared to approximately five months of operations in 1996, as well as increased business development expenses and traffic costs in 1997.

Product Development. Product development expense increased to \$2.6 million for the year ended December 31, 1997 from \$915,000 for the period from July 19, 1996 (inception) through December 31, 1996. The dollar increase in product development expenses is attributable to a full year of operations in 1997 compared to approximately five months in 1996, as well as an increase in editorial and engineering personnel for the purpose of developing the LookSmart database.

General and Administrative. General and administrative expenses increased to \$1.2 million for the year ended December 31, 1997 from \$504,000 for the period from July 19, 1996 (inception) through December 31, 1996. The dollar increase in general and administrative expenses is primarily due to a full year of operations in 1997 and additional personnel and professional services costs incurred to support the growth of the Company.

Amortization of Goodwill and Intangibles. Amortization of goodwill and intangibles increased to \$410,000 for the year ended December 31, 1997 from \$205,000 for the period from July 19, 1996 (inception) through December 31, 1996. The dollar increase in amortization of goodwill and intangibles is the result of a full year of amortization in 1997 versus approximately six months of amortization in 1996.

Non-operating Income (Expense), Net. We recorded net interest expense of \$16,000 for the year ended December 31, 1997 compared to net interest income of \$9,000 for the period from July 19, 1996 (inception) through December 31, 1996. We recorded other expenses, net of \$3,000 for the year ended December 31, 1997 compared to other expenses, net of \$19,000 for the period from July 19, 1996 (inception) through December 31, 1996.

Income Taxes

We recorded income tax expense of \$166,000 for the year ended December 31, 1997, primarily associated with our Australian operations, compared to \$64,000 for the period from July 19, 1996 (inception) through December 31, 1996.

Quarterly Results of Operations

The following table sets forth unaudited quarterly statements of operations results for each of the eight quarters ended June 30, 1999. We believe that this information reflects all adjustments consisting only of normal recurring adjustments that we consider necessary for a fair presentation of such information in accordance with generally accepted accounting principles. The results for any quarter are not necessarily indicative of results for any future period.

| | Three Months Ended | | | | | | | |
|---|--------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|
| | Sept. 30, 1997 | Dec. 31, 1997 | Mar. 31, 1998 | June 30, 1998 | Sept. 30, 1998 | Dec. 31, 1998 | Mar. 31, 1999 | June 30, 1999 |
| | (unaudited) | | | | | | | |
| | (in thousands) | | | | | | | |
| Revenues..... | \$ 102 | \$ 555 | \$ 805 | \$ 1,040 | \$ 1,723 | \$ 5,217 | \$ 6,580 | \$ 11,478 |
| Cost of revenues..... | 93 | 183 | 250 | 245 | 226 | 865 | 318 | 2,436 |
| Gross margin..... | 9 | 372 | 555 | 795 | 1,497 | 4,352 | 6,262 | 9,042 |
| Operating expenses: | | | | | | | | |
| Sales and marketing.... | 1,067 | 821 | 1,124 | 1,961 | 3,317 | 4,446 | 6,422 | 9,767 |
| Product development.... | 874 | 478 | 529 | 615 | 1,186 | 2,097 | 3,884 | 5,683 |
| General and administrative..... | 323 | 220 | 362 | 524 | 671 | 1,189 | 1,615 | 2,051 |
| Amortization of goodwill and intangibles..... | 103 | 103 | 103 | 102 | 103 | 297 | 395 | 1,463 |
| Amortization of unearned compensation | -- | -- | -- | -- | 19 | 114 | 789 | 2,005 |
| Write-off of in-process research and development..... | -- | -- | -- | -- | -- | 338 | -- | -- |
| Total operating expenses..... | 2,367 | 1,622 | 2,118 | 3,202 | 5,296 | 8,481 | 13,105 | 20,969 |
| Loss from operations.... | (2,358) | (1,250) | (1,563) | (2,407) | (3,799) | (4,129) | (6,843) | (11,927) |
| Non-operating income (expense), net..... | 5 | (29) | (64) | (503) | (2) | (245) | 19 | 570 |
| Loss before income taxes..... | (2,353) | (1,279) | (1,627) | (2,910) | (3,801) | (4,374) | (6,824) | (11,357) |
| Income taxes..... | (41) | (30) | (45) | (31) | (18) | (52) | (52) | -- |
| Net loss..... | \$(2,394) | \$(1,309) | \$(1,672) | \$(2,941) | \$(3,819) | \$(4,426) | \$(6,876) | \$(11,357) |

Revenues increased from \$1.7 million for the quarter ended September 30, 1998 to \$5.2 million for the quarter ended December 31, 1998 and to \$6.6 million for the quarter ended March 31, 1999. The increase is attributable to a significant database content licensing agreements that we entered into in the third and fourth quarters of 1998. Revenues increased to \$11.5 million for the quarter ended June 30, 1999 as a result of continued advertising sales growth, licensing revenues and the inclusion of new ecommerce revenues from the Guthy- Renker Internet asset purchase transaction. In addition, revenues increased each quarter for the six quarters ended December 31, 1998 as a result of continuing increases in advertising and syndication revenues. Advertising revenues were higher in the fourth quarter of 1998 than the first quarter of 1999, reflecting the seasonality of our advertising sales, which are typically higher during the holiday season.

Cost of revenues on a quarterly basis remained relatively steady throughout 1998 and the first quarter of 1999, with the exception of the quarter ended December 31, 1998, which includes a one- time finders fee associated with a major licensing agreement. The large increase in cost of revenues for the quarter ended June 30, 1999 is primarily the result of the Guthy-Renker Internet asset purchase transaction. We expect cost of revenues to increase in the future with the introduction of new services.

Sales and marketing expenses increased significantly for each of the last four quarters as we entered into traffic purchase agreements with our ISP partners and other major portals, increased our trade marketing efforts, built our sales force and continued to expand our business development team. Product development expenses increased significantly for each of the last four quarters due to significant increases in editorial and engineering personnel for the purpose of developing our databases. General and administrative expenses have continued to increase over the past four quarters due primarily to an increase in personnel and the development of a corporate infrastructure to support our growth.

Amortization of the goodwill and intangibles increased to \$297,000 for the three months ended December 31, 1998 from \$103,000 for the three months ended September 30, 1998 due to the amortization of goodwill relating to the acquisition of BeSeen.com in October 1998. Amortization of goodwill and intangibles increased to \$394,000 for the three months ended March 31, 1999 and to \$1.5 million for the three months ended June 30, 1999 as a result of recording three full months of amortization of goodwill related to the October 1998 acquisition in the first and second quarters of 1999, and the commencement of amortization related to the Guthy-Renker Internet and ITW NewCorp asset purchase transactions in the second quarter of 1999.

Amortization of unearned compensation increased in each of the four quarters ended June 30, 1999, primarily as a result of an increase in the number of options outstanding.

Our quarterly operating results may fluctuate significantly in the future as a result of a variety of factors. These factors include:

- . the timing of specification of and delivery against URL targets in our agreement with Microsoft that may lead to significant variations in revenues earned;
- . the level of user traffic on our website and the demand for our Internet navigation services;
- . the level of demand for Internet advertising and changes in the advertising rates we charge;
- . the addition or loss of relationships with advertisers;
- . the level and timing of our licensing and syndication activities;
- . the mix of types of advertising we sell as targeted advertising generally has higher rates;
- . seasonality of our advertising revenues, as Internet usage is typically lower in the first and third quarters of the year;

- . the amount and timing of other costs relating to the expansion of our operations;
- . the capital and human resources costs of providing our recently launched interactive Internet navigation assistance service, LookSmart Live!;
- . the introduction of new products or services by us or our competitors;
- . technical difficulties and systems downtime or failures; and
- . costs related to acquisitions and integration of technologies or businesses.

We may from time to time make pricing, service or marketing decisions that may adversely affect our profitability in a given quarterly or annual period. Our expense levels are based in part on expectations of future revenue and, to a large extent, are fixed. We may be unable to adjust spending quickly enough to compensate for any unexpected revenue shortfall. In addition, we generate a significant portion of our revenues from advertising once our contracts with advertisers are generally for a period of one to three months.

Liquidity and Capital Resources

Since our inception, we have funded our cash requirements primarily through the issuance of common and convertible preferred stock and through revenues from licensing and advertising sales.

As of June 30, 1999, we had working capital of \$26.7 million. Current assets included \$42.7 million in cash and cash equivalents and current liabilities included \$17.2 million in deferred licensing revenues. Deferred revenues primarily reflects payments in excess of the revenues we have recognized under our agreement with Microsoft. We have an equipment financing line of \$2.0 million of which \$1.5 million was available on June 30, 1999.

Our operations used cash of \$6.4 million for 1997, \$1.9 million for 1998 and \$5.7 million for the six months ended June 30, 1999. Net cash used in operations in 1997 was principally the result of the net loss. Net cash used in operations for 1998 and the first half of 1999 resulted primarily from the net losses for the period and increases in accounts receivable, prepaid expenses and other assets partially offset by increases in accrued liabilities and deferred revenues related to our agreement with Microsoft.

Our investing activities used cash of \$336,000, \$2.5 million and \$14.6 million for the years ended December 31, 1997 and 1998, and for the six months ended June 30, 1999. Investing activity in each period reflects purchases of fixed assets and, in 1998, also includes the acquisition of BeSeen.com. In 1999, investing activities includes the Guthy-Renker Internet and ITW NewCorp asset purchase transactions. We plan to consolidate our five San Francisco offices into one facility later in 1999, and will incur substantial leasehold improvement and other fixed asset outlays related to the occupancy of the new facility.

We have entered into a lease on that facility under which we will be required to make aggregate rent payments of approximately \$44.0 million over the ten year term of the lease. We have the right to sublease.

Our financing activities provided cash of \$6.5 million, \$7.9 million and \$59.4 million for the years ended December 31, 1997 and 1998, and for the six months ended June 30, 1999. In 1997, we received a \$4.9 million cash contribution from our stockholder. In 1998, we received cash proceeds of \$5.5 million from the issuance of Series B convertible preferred stock. In the first quarter of 1999, we received cash proceeds of \$60.3 million from the issuance of Series C convertible preferred stock.

Our capital requirements depend on numerous factors, including market acceptance of LookSmart services, the amount of resources we invest in directory content, site development, sales and marketing and brand promotions. We have experienced a substantial increase in expenditures since inception consistent with growth in operations and staffing. We anticipate that this will continue for the foreseeable future. Additionally, we plan to expand our sales and marketing programs, conduct more aggressive brand promotions and continue to evaluate possible investments in complementary businesses and technologies.

We believe that the net proceeds from this offering and our current cash balance will provide adequate liquidity to meet cash requirements for at least two years following this offering. We may need to seek additional financing if investment plans for our business change. We cannot assure you that such financing will be available on reasonable terms when and if required. If we raise additional funds through the issuance of equity or convertible debt securities, our existing stockholders will experience dilution of their holdings.

Recently Issued Accounting Pronouncements

In 1998, the Financial Accounting Standard Board issued Financial Accounting Standards No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits, and No. 133, Accounting for Derivative Instruments and Hedging Activities, which are effective for the year ending December 31, 1999. We do not believe that the adoption of these pronouncements will have a material effect on our consolidated financial statements.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1), which provides guidance for determining whether computer software is internal-use software and for accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold. SOP 98-1, which is effective for the year ended December 31, 1999, also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. We do not expect the adoption of SOP 98-1 to have a material effect on our consolidated financial statements.

In April 1998, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 98-5 (SOP 98-5), Reporting on the Costs of Start-Up Activities, which provides guidance on the financial reporting of start-up costs. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. Because we have not capitalized such costs, the adoption of SOP 98-5 will not have an impact on our consolidated financial statements.

Year 2000 Readiness Disclosure

The Year 2000 problem may adversely affect our business. The Year 2000 problem is the potential for system and processing failures of date-related data arising from the use of two digits by computer-controlled systems, rather than four digits, to define the applicable year. We believe that our internal software and hardware systems will function properly with respect to dates in the year 2000 and thereafter, but we cannot assure you that this will be the case. In addition, Year 2000 problems of our suppliers or partners could affect our systems or operations.

Year 2000 Assessment and Looksmart's State of Readiness. In 1999, we initiated a Year 2000 assessment and planning effort to review both our relevant operating, financial and administrative information technology, or IT, and non-IT systems. We also formed our Y2K Committee to plan for and supervise the remediation of those systems where necessary. We have

retained outside consultants to assist us in the Y2K Committee's review of our systems and planning for remediation efforts. Our consultants have determined that due to the absence of "legacy" systems in our business, we have little remediation exposure. We have conducted tests and expect to conduct additional tests of our systems as part of our Year 2000 efforts. Our consultants have determined that our non-IT exposure is limited to parts of the physical premises of our office space. Our consultants also determined that our non-IT exposure will be eliminated by December 31, 1999.

Our consultants will develop contingency plans for critical individual information technology systems to address Year 2000 risks as a complementary part of our Year 2000 program. We believe we will have identified all of our critical hardware and software systems and will have sought confirmations from the providers of these systems that they are Year 2000 compliant by the completion of Compliance Review Phase III.

Our Year 2000 assessment and contingency planning effort is divided into four phases as illustrated by the following table:

Year 2000 Tasks and Milestone Status--Relevant Systems

| | |
|--|------------------------|
| Discovery Phase I | Completed June 4, 1999 |
| PC Desktop/Workstation System Inventory and Identification | |
| . Y2K Inventory Tool Evaluation | |
| Perform testing of Clicknet Y2K inventory software | |
| Make acquisition decision | |
| . Physical Y2K Inventory | |
| Acquire Clicknet Y2K software for enterprise | |
| Install and complete Y2K system inventory | |
| (All Macintosh and Intel-based platforms) | |
| . Complete inventory reporting for Y2K Team | |

| | |
|--|---|
| Y2K Compliance Review--Phase I | Finalized Action Plan--Scheduled for completion July 30, 1999 |
| Status Assessment and Review | Status Assessment and Review Completed June 1999 |
| . Business Criticality (core flow identification) | |
| . COTS (commercial off-the-shelf products) | |
| . Internally developed/maintained systems | |
| . Hardware/network components | |
| Y2K Action Plan | Delivered July 20, 1999 |
| Review of Action Plan | Completed July 22, 1999 |
| Finalization of Key Milestones, Timelines & Deliverables | |

| | |
|---|--|
| Y2K Compliance Review--Phase II | Scheduled for completion September 1, 1999 |
| Y2K Detail Compliance Review | |
| . COTS | |
| . Internally developed/maintained systems | |
| . Business partners/interfaces | |
| . Hardware/network components | |
| Y2K Compliance Strategy | |
| . Product upgrades/patches | |
| . Product replacements | |
| . Internal software upgrade analysis | |

| | |
|---|---|
| Y2K Compliance Review--Phase III | Scheduled for completion November 1, 1999 |
| Remediation | |
| . Internal Systems (scan, modify, component test) | |
| . External Systems (install, apply upgrades/patches component test) | |
| Y2K Compliance | |
| . Confirmation or Compliance test (end to end Y2K rollover and leap year tests) | |
| Test results signoff and Test Summary package | |
| Re-implementation of compliance upgrades | |

State of Readiness of Our Vendors' and Suppliers' Systems. Our main external supplier is our internet service provider, Frontier. We are currently consulting with Frontier's senior executives to determine whether Frontier will be Year 2000 compliant. We expect to receive written assurances from Frontier as to its readiness for the Year 2000 prior to August 31, 1999.

We have communicated with other significant suppliers and vendors to determine the extent to which they are vulnerable to Year 2000 issues. We have acquired Year 2000 readiness statements from a majority of our significant suppliers and vendors. We have not yet received sufficient information on Year 2000 remediation plans of the remaining vendors in order to predict the outcome of their efforts. If we do not timely receive sufficient information on Year 2000 remediation plans from the remainder of our significant suppliers and vendors, we will continue to contact them or meet with them as we deem appropriate.

We plan independent verification and validation by means of "roll-over" testing for the following vendors: Engage Technologies, Great Plains, Cerridian, Goldmine, eGain, IBM, Microsoft and Sun Microsystems. "Roll-over" testing involves testing a system's Year 2000 compliance by manually setting its clock to a date after December 31, 1999. We do not currently plan independent testing of systems provided to us by Cisco and 3Com, and instead rely on statements from each company's respective public websites indicating that the systems they each provide to us are Year 2000 compliant.

Year 2000 Risks. We are not currently aware of any Year 2000 compliance problems relating to our software or our IT or non-IT systems that would have a material adverse effect on our business, results of operations and financial condition. We cannot, however, assure you that we will not discover Year 2000 compliance problems in our software that will require substantial revisions or replacements.

Despite our plans and our assessment of current hardware and software, our assessment of our Year 2000 compliance may not be fully accurate. In some cases, we may have to rely in good faith on the representations and warranties regarding Year 2000 compliance provided to us by vendors of hardware and software and the advice and assessment of our consultants, which we may not be able to independently verify. These representations and warranties may not be accurate in all material respects, and the advice or assessments of our consultants may not be reliable. If our vendors are not able to make their systems Year 2000 compliant in a timely manner, our business could suffer.

In addition, we cannot assure you that the software, hardware or services of others incorporated into our material IT and material non-IT systems will not need to be revised or replaced, which could be time consuming and expensive. Our failure to fix our software, if necessary, or to fix or replace the software, hardware or services of others, if necessary, on a timely basis could result in lost revenues, increased operating costs and other business interruptions, any of which could have a material adverse effect on our business, results of operations and financial condition.

Moreover, the failure to adequately address Year 2000 compliance issues in our IT and non-IT systems could result in claims of mismanagement, misrepresentation or breach of contract and related litigation, which could be costly and time-consuming to defend.

A worst case scenario would be that governmental agencies, utility companies, Internet access companies, such as Frontier, service providers and others outside our control will not be Year 2000 compliant. The failure by these entities to be Year 2000 compliant could result in a systematic failure beyond our control, such as a prolonged Internet, telecommunications or electrical failure, which could prevent us from operating our website and could have a material adverse effect on our business.

We have not developed any contingency plans. Our Year 2000 simulation testing when completed and the responses received from vendors and service providers will be taken into account in determining the need for and nature and extent of any contingency plans.

Costs. Costs associated with Year 2000 compliance matters have been approximately \$38,000 to date and we anticipate additional costs of approximately \$265,000. Most of our expenses have related to, and are expected to continue to relate to, the evaluation and testing process and Year 2000 compliance matters generally. These costs, if higher than anticipated, could have a material adverse effect on our business, results of operations and financial condition. Monies paid for Year 2000 compliance are allocated to our general operating budget and are to be applied against our revenues. Based on the steps being taken and progress to date, we estimate that the expenses for ensuring Year 2000 compliance of our computer products and systems will not harm our operations or earnings, and can be financed out of cash flow from operations. We do not track Year 2000 readiness expenses separately from other expenses. No IT projects have been delayed as a result of our expenditures on Year 2000 compliance.

Estimated Year 2000 Compliance Costs

(in thousands)

| Total | Replacement | Remediate | Auditing and | |
|--------------------------------|-------------|-----------|--------------|-------|
| Costs | Systems | Software | Verification | |
| | ----- | ----- | ----- | |
| Total estimated cost..... | \$43 | \$50 | \$210 | \$303 |
| Spent as of July 22, 1999..... | 13 | -- | 25 | 38 |
| Remaining budget..... | \$30 | \$50 | \$185 | \$265 |
| | === | === | ==== | ==== |

BUSINESS

Overview

LookSmart is a leading category-based Internet directory provider that has assembled what it believes to be the largest collection of high-quality, granular content on the Internet. The LookSmart directory contains over 800,000 unique URLs in over 60,000 categories, organized in an easy-to-navigate format. Our directory is designed to appeal to an audience of novice as well as sophisticated Internet users. Additionally, LookSmart is an Internet navigation service provider that chooses not to list pornographic or hate material.

We distribute our proprietary directory to a large number of Internet users through LookSmart-owned Internet properties and through our strategic alliances. Our Internet properties, including looksmart.com, target primarily a focused demographic of female household purchase decision-makers and generate advertising and ecommerce transaction revenue. We broaden the reach of the LookSmart directory through syndication and licensing of our content. We currently provide our directory to leading Internet portals, including The Microsoft Network, Netscape Netcenter, Excite@Home and Alta Vista, and 220 ISPs, including IBM.net and NetZero. In addition, users can access our content and services through a network of over 600,000 website affiliates. In May 1999, more than 43 million individual Internet users accessed looksmart.com and the websites of our licensing and syndication affiliates, according to Media Metrix.

Industry Background

The emergence and wide acceptance of the Internet has fundamentally changed how millions of people worldwide share information, communicate and conduct business. International Data Corporation estimates that the number of Internet users worldwide will increase from approximately 142 million in 1998 to approximately 399 million by the end of 2002. IDC expects the total number of URLs to grow from 925 million in 1998 to 8 billion by 2002. This includes "suffixed" pages, which are separate URLs within individual websites. We believe this increase is leading to a greater amount of highly-specific content on the Internet. Major factors driving this growth in Internet usage and content include the increasing familiarity with and acceptance of the Internet by businesses and consumers, the growing number of personal computers in homes and offices, the ease, speed and lower cost of Internet access and improvements in network infrastructure. These factors make the Internet accessible to inexperienced users as well as the technologically sophisticated. The growth in the number of Internet users has also led to the emergence of the Internet as a powerful advertising and commerce medium. Forrester Research estimates that total spending on Internet advertising in the United States will grow from \$1.5 billion in 1998 to nearly \$11 billion in 2002.

The Navigation Challenge

The massive volume and growth of granular content on the Internet has created the need for an organizing layer that can successfully match content producers with end users. This organizational challenge, which we call the "navigation challenge", has led to the development of several Internet services, including directories, search engines and portals, designed to help users locate information. These services also seek to enable content producers, including website owners, Internet communities, advertisers and vendors, to reach their target audiences.

We believe that most Internet organization efforts to date have failed to fully meet the "navigation challenge". Traditional Internet directories often lack focused and relevant category structures, have limited content and contain many "dead", outdated, irrelevant and offensive links. Search engines, which use software to locate websites based on user-entered key words, often generate large sets of results but typically cannot determine website quality. Search engines also

have limited capacity to determine the relevancy of websites to a query, have poor "ranking algorithms" to order results, often do not contain recently published websites and fail to respond to "dynamic" or frequently changing material. Users of these services also often receive irrelevant or offensive material, such as pornography. Internet users are demanding smarter search capabilities and better organized content that will allow them to find granular, deeply specialized and local content.

The Audience and Advertising Challenge

New Media Family. We believe that current Internet navigation services do not meet the particular needs of a rapidly emerging user demographic that we call the New Media Family. This group consists primarily of female household purchase decision-makers, many of whom are new Internet users. Because most major Internet search services were designed and "packaged", in terms of graphic and interface design, color scheme and editorial "voice", for the early technically-oriented adopters of the Internet, these Internet search services have not created an atmosphere and community that appeals to inexperienced Internet users.

Advertisers. According to a November 1997 Advertising Age article, women influenced 80% of all purchase decisions. This has made women an increasingly attractive target for advertisers. Many advertisers, however, cannot accurately target this audience using the Internet because they lack sufficiently precise targeting data, including, demographic, psychographic and behavioral data. In addition, few websites offer advertisers access to concentrated groups of female users. Given the lack of focus on women and new users among websites and traditional navigation services, it is particularly difficult for advertisers to reach these influential purchase decision-makers.

The Business Challenge

While the Internet has emerged as an effective and powerful commercial medium for buyers and sellers to consummate transactions, businesses still face many challenges in utilizing the Internet to its full potential.

Internet Service Providers, Portals and Vertical Websites. As the amount and specificity of Internet content has grown, the editorial challenge for ISPs, portals and vertical websites of maintaining high quality directories has grown proportionately. We believe that as these companies invest more heavily in adding functionality to their websites, they will have fewer resources to devote to the categorization and maintenance of relevant and focused directory services. Therefore, many Internet portals and vertical websites have a need for outsourced services to provide their search, directory and content solutions.

Buyers and Sellers. The rapid emergence of ecommerce has created challenges for both buyers and sellers. Many companies that hope to tap ecommerce opportunities have little understanding of how to use the Internet to reach their target customers, and find it difficult to obtain the resources and expertise necessary to create an effective online presence. Businesses that are online often find it difficult to generate qualified visitor traffic. Lastly, would-be buyers find it difficult to locate specific, often local, businesses through the Internet.

The LookSmart Solution

LookSmart has assembled what it believes to be the largest collection of high-quality, granular content on the Internet, organized in a categorical, easy-to-navigate directory format and underlying database. In doing so, we believe we are creating a highly scalable asset that can be distributed to a

large number of Internet users through our Internet properties, including looksmart.com, and through other online licensees and syndicators, including major Internet portals, ISPs and destination websites. In the process, we seek to address many of the key challenges faced by users, content providers, advertisers and vendors.

The Navigation Solution

We provide a directory that includes "all of the useful stuff and none of the junk" and is organized in order to enable users to choose between an intuitive category search path or a key word query.

Comprehensive Content. The LookSmart directory currently contains over 800,000 unique URLs in over 60,000 categories. Through a partnership with Cox Interactive Media, the LookSmart directory contains what we believe to be the most comprehensive collection of high-quality local websites in 65 United States markets. We have also developed specialized directory services for the United Kingdom, Canada and Australia.

High-Quality Content. We focus on including only authoritative, up-to-date, categorized content in our directory, while excluding pornographic and other offensive material. Our team of over 180 editors includes taxonomists, copy editors, assignment editors, subject specialists, maintenance editors and generalist editors. Our editors use proprietary software products that help find, categorize, index, rate, compare and check whether a website is available.

Easy-to-Navigate Content. The LookSmart directory is organized to provide relevant navigation results for both category-based and key word navigation. Our navigation interface allows a user to follow a search path into sub-categories and sub-sub-categories visually on the screen, enabling the user to see not only which path was chosen, but also those which were not. We believe that this is a critical element in the trial and error process that most users undertake to find material. Our key word search brings users directly to website results. All of our navigation results include a brief description of each website to help guide users. The LookSmart directory also facilitates searches of local content, white pages and email directories, yellow pages, discussion/news groups and shopping prices.

The Audience and Advertising Solution

Looksmart.com: Uniquely Packaged Content. Looksmart.com, launched in October 1996, is the flagship site for our LookSmart directory. Looksmart.com seeks to package the LookSmart directory with other appropriate content and functionality to provide a simple, compelling experience for the New Media Family. Looksmart.com's benefits include:

. **Intuitive Navigation.** Looksmart.com combines the superior navigation functionality of the underlying directory with the benefits of the website's easy-to-use user interface.

. **Inoffensive Content Environment.** Looksmart.com does not list pornographic or hate material in its directory.

. **Differentiated Visual Design.** Looksmart.com has been designed using colors, color photographs and other design elements that differentiate the offering and, we believe, makes our website more attractive to users.

. **Content, Commerce and Community Functionality.** Looksmart.com provides access to additional content and functionality on its home page, including free email, current news, stock and finance information, weather, maps, horoscopes and chat groups. Each of these services has been designed to appeal to the New Media Family.

. LookSmart Live!. In July 1999, we introduced a service that enables users to directly contact our editors to get assistance with their Internet search and related activities. This feature has been developed in response to consistent data from our qualitative research that suggests that our target audience often "gets stuck" and would greatly value assistance. We believe that this is the first large scale implementation of such a service on the Internet.

Access for Advertisers to the New Media Family. We offer advertisers the opportunity to reach female household purchase decision-makers in large scale. During the last four quarters, Looksmart.com's audience was 58% female, on average, as measured by the NPD, the majority owner of Media Metrix. LookSmart is able to provide advertisers with highly targeted reach driven by particular subject categories or keyword search terms. By offering advertisers the ability to place their advertisements on category and keyword results pages, advertisers are able to find their target audience more effectively.

The Business Solution

We believe that our ability to categorize and organize highly granular content allows us to offer a variety of business solutions.

Outsourcing Solution for Content and ISPs. We leverage our database by syndicating, licensing and distributing our proprietary content to leading Internet portals, websites and other media companies, including Microsoft, Netscape, Alta Vista, Excite@Home, Blue Mountain Arts, Go2Net, Lycos/HotBot, Macromedia and IDC. Each affiliate is able to package our content in unique ways to meet the particular needs of its core audience without expending resources and expertise to develop and maintain a comprehensive Internet directory. Through our LookSmart Network, we also provide ISPs with a full content solution for their users. The LookSmart Network has 220 member ISPs and a customer retention rate of approximately 90% over its two-year history.

Dedicated Services for New and Existing Online Businesses. LookSmart offers services that help both new and existing businesses optimize their online presence. Our website enhancement services provide content and applications for webmasters to help them meet their users' needs and to encourage them to become affiliated with LookSmart. Our Internet access services provide small and mid- size business owners with seminars and services that enable them to sell their products and services over the Internet. In addition to helping businesses establish a presence on the Internet, LookSmart offers new arrivals visibility, the advantages of a place in the LookSmart directory and positioning in our ChoiceMall shopping site.

Ecommerce Solutions That Match Buyers and Sellers. LookSmart also offers a variety of websites that allow buyers and sellers to find each other. In June 1999, LookSmart launched rewardmall.com, an affinity Internet shopping mall site that is accessible through both looksmart.com and our partners' Internet properties. We also operate an Internet shopping site entitled Buy it On the Web which promotes and sells over 20 "As Seen on TV" products ranging from music videos to beauty and health products, through an exclusive license agreement with Guthy-Renker Corporation.

The LookSmart Strategy

Our strategy is to establish LookSmart as the leading category-based Internet directory service for global and local information on the Internet and to derive multiple revenue streams by leveraging our directory asset. The key elements of our growth strategy include the following:

Expand Collection of High-Quality, Granular Content

We intend to expand both the number of high-quality URLs included in our directory as well as the number of categories into which we classify the URLs. Our mission to be the largest provider of

granular information on the Internet requires us to continually improve the content in our existing categories by including new websites, communities and commerce environments, deleting outdated links and updating editorial annotations. In order to extend our directory, we plan to increase the number of Internet editors that we have both domestically and internationally, and to support those editors with advanced productivity tools.

Build the LookSmart Brand and Audience

To enhance business and consumer awareness of our brand, we plan to pursue an extensive brand development initiative through mass market and targeted advertising. We believe that building a strong brand name will help build a loyal base of users. In addition, we believe that a strong brand will help to attract additional advertisers and ecommerce partners and will better enable us to syndicate and license our directory to additional business partners. Our consumer branding investments will focus specifically on reaching our target New Media Family audience through radio, television, print and online advertising media.

Utilize LookSmart Content to Drive Multiple Revenue Streams

Our goal is to leverage our unique assets--the LookSmart directory and the people and processes that create it--and monetize them in several ways. We are targeting the convergence of three large market opportunities: online advertising, syndication and licensing, Internet outsourcing and ecommerce. We will continue to seek to monetize these assets through these revenue opportunities, as well as create additional revenue streams, including from international sources, premium usage fees and enterprise services.

Pursue Strategic Acquisitions and Alliances

We plan to pursue acquisitions and alliances to strengthen our technology, broaden our audience reach, capture new distribution channels or open new revenue streams. In addition, we plan to focus on further expanding our syndication, licensing, Internet enabling and ecommerce services.

Expand into Select International Markets

As one of only a few companies that have created a significant presence in the United States Internet market with beginnings outside the United States, we believe we are well positioned to enter major international markets in a locally-relevant, culturally-sensitive manner. We plan to build our editorial operations and our business operations in Europe, Asia and Latin America.

The LookSmart Database

LookSmart content has been structured to include "all of the useful stuff and none of the junk". The database is organized in order to enable users to follow intuitive category and sub-category "paths" to find their desired content or to retrieve it by typing in a keyword.

LookSmart creates this directory database using a combination of proprietary software and a highly structured Internet editorial team. Our editorial teams are located in San Francisco, Melbourne, Montreal and Amsterdam. Our proprietary software includes systems that find, categorize, index and check whether the website is available and provide editors with a sophisticated desk- top tool set to efficiently review, categorize, describe, rate and compare the websites. The systems we have developed enable our editors to perform five core processes:

Find the Content

Our editors use a range of automated search technologies, other websites, website submissions from website owners/builders, off-line data sources and other methodologies to find the content our users may require.

Select the Content

In finding useful content, our editors also encounter a lot of "junk", material that is unlikely to be useful to our users. For example, a user searching through traditional Internet directories for material on surgery for breast cancer is likely to come across material that is either commercial material, material related to cosmetic surgery, pornographic material, or material from sources with limited medical authority. Our editors select and place content for each of over 60,000 categories according to parameters that our taxonomy team maintains. The editors will also often order the websites to enable the user to find the most generally useful or authoritative source first and view the more specialized or marginal sources later.

Organize the Content

Our team of full-time taxonomists, primarily library science and information science specialists, create and frequently modify our category taxonomy to ensure that it is logical, current and intuitive.

Describe the Content

The end product that users are seeking from a navigation service is a list of website links. Our copy editors provide succinct, 15 words or fewer, descriptions of every website listed to assist users in determining which websites contain content most relevant to their search.

Maintain the Content

Our editors regularly review user requests and content availability to add new categories and new websites for existing categories. We also use a combination of software and editorial intervention to minimize inactive links in the database. Websites in each category are reviewed according to a schedule that is appropriate to the subject matter. For example, we update our collection of material related to the current news much more frequently than we update our material on historical subjects.

Looksmart.com and Related Properties

Looksmart.com packages the LookSmart directory with other appropriate content and functionality to provide a simple, compelling experience for the New Media Family. Some of the principal aspects of the service are as follows:

Intuitive Navigation

The LookSmart directory content is available through an intuitive interface that enables a user to follow a category path into sub-categories and sub-sub- categories visually on the screen, enabling the user to see not only which path was chosen, but also those which were not, a critical element in the trial and error process most users undertake to find the material they require. In addition to the 60,000 categories listed on its home page, LookSmart offers keyword search functionality, which searches the LookSmart database first and then the Alta Vista database if additional results are required.

Inoffensive Content Environment

Looksmart.com does not list pornographic or hate material in its directory. We believe that the New Media Family desires an Internet navigation environment that does not provide links to offensive material in response to benign queries. We believe that no other major Internet navigation company has made a commitment not to list this material and, while we cannot provide an absolute guarantee against access to this material through looksmart.com, we believe that it is unlikely that a user of looksmart.com will inadvertently come across offensive material.

Content, Commerce and Community Functionality

Looksmart.com also provides access to additional content and functionality on its home page, including free email, current news, stock and finance information, weather, maps, horoscopes, and chat groups. By providing access to these services, LookSmart seeks to meet the community and communications needs of its users.

Localized Content

Through a partnership with Cox Interactive Media, the LookSmart directory contains what we believe to be the most comprehensive collection of high-quality local websites in 65 United States markets. Looksmart.com offers up-to-the-minute news, weather and traffic reports, information on movies and family activities and thousands of links to local businesses, services and community activities.

Syndication

Syndication and Licensing of the Directory Database

We currently generate revenues from our proprietary content by licensing it to portals, websites and other media companies and by making it available to ISPs through our LookSmart network. We have syndication relationships with Microsoft, NetZero, Excite@Home, Alta Vista, Blue Mountain Arts and IBM.net.

Many of these businesses are focused on extending their user reach and increasing the length and frequency of user visits and are continually adding services to make their offering more compelling. These companies typically may not have the resources, expertise or desire to internally develop and maintain a comprehensive Internet directory and instead choose to outsource this navigation service from LookSmart.

We offer these businesses a wide and flexible range of business terms and technology solutions. For example, in some cases LookSmart serves the pages and/or sells the advertising; in other cases, the partner does one or both. In some cases, LookSmart pays or receives a share of the advertising revenues. In other cases, the partner pays LookSmart a pre-determined license or subscription fee for ongoing access to the database updates.

Syndication of Full Navigation Functionality to ISPs

We provide ISPs with our navigation and directory content solution, enabling them to offer a complete Internet service to their users. Outsourced solutions like ours allow small and medium-sized ISPs to compete with larger, more powerful companies like America Online. In most cases, LookSmart provides a complete solution to the ISP where we design a unique page, host the service, sell the advertising and share a percentage of advertising revenue with the ISP. While we have agreements with some of the major ISPs, such as IBM.net and NetZero, we have also concentrated on reaching the mid-sized regional ISP market. The LookSmart network has 220 member ISPs and a customer retention rate of approximately 90% over its two-year history.

Business Services

LookSmart has built a portfolio of business services that help businesses understand the Internet and its implications for their business, including:

- . seminars to educate business owners and vendors on how best to establish an online presence and tap potential ecommerce opportunities;
- . internet design and website building;
- . integration of ecommerce enabling tools into websites, including shopping carts and online ordering;

. website hosting and technical support; and

. placement in LookSmart's Choice Mall and Rewardmall services.

Our choicemall.com service provides an online shopping environment for our merchant customers. Our vendors' websites are also listed in the appropriate sections of the LookSmart database for distribution through looksmart.com and our related websites. Together, these services create the opportunity for smaller vendors to understand and tap the potential of the Internet as a marketing and commerce vehicle for their products and services.

Content and Applications

We seek to provide a wide range of content services and software applications for webmasters to help them better serve their users' needs in a cost-effective manner. These services include:

. navigation/content offerings such as SmartLinks, which are links into the part of the category structure of LookSmart that is relevant to their website's focus;

. a "Search My Site" utility enabling users to conduct key word searches of the webmaster's website and then the Internet;

. community offerings such as guest books, chat rooms and private club environments;

. vendor offerings such as Rewardmall and transaction-enabling services through our Choice Mall offering; and

. other utilities such as hit counters and one-for-one banner exchanges.

All of these services adopt a self-marketing approach whereby any user, including other website owners, who clicks on a product can download products to enhance his or her own website. These services require a simple "cut and paste" operation to become operative on a website. This approach has enabled the network of affiliate websites to grow very rapidly at very low cost to LookSmart. We currently have over 600,000 affiliated websites.

Rewardmall

In June 1999, we launched an Internet shopping mall called rewardmall.com, which features over 25 brand name merchants, as well as smaller specialty merchants. The Rewardmall is accessible by a direct link from the looksmart.com home page as well as by several links throughout our website. In addition, the Rewardmall is syndicated to our ISP partners and through our co-branded websites. Internet shoppers are able to find products and services by using the Rewardmall directory or by searching the Rewardmall by merchant, product or product category. In the future we also plan to offer shoppers customized "Rewardmall Deals", which will appear throughout the Rewardmall. We receive a percentage of the sales purchased through the Rewardmall, including products sold through Rewardmall Deals.

We will also offer shoppers "RewardPoints" for purchases made through the Rewardmall. We will allocate a portion of the proceeds we receive from the purchases made through the Rewardmall to offer merchandise to online shoppers that can be purchased with RewardPoints. Online shoppers will be able to redeem these RewardPoints for products, services and miles in affiliated frequent flier programs.

Buy It On The Web

We maintain an Internet shopping website entitled Buy It On The Web that promotes and sells over 20 "As Seen on TV" products ranging from music videos to beauty and health products. As Seen on TV products are products that have been or are currently promoted through infomercials and other television advertising, and are often endorsed by celebrities. Currently, all of the products

available through Buy It On The Web are products marketed and distributed by Guthy-Renker Corporation. We are the primary Internet distributor for all of Guthy-Renker Corporation's products, including Anthony Robbins' programs and Victoria Principal cosmetics. We receive a percentage of all sales revenues from these products sold through the Internet.

International

LookSmart has established international operations to meet worldwide demand for improved navigation and content on the Internet. Central to our international efforts is our ability to localize our database for individual markets in order to create a more culturally-relevant offering. We currently have editorial teams located in San Francisco for our United States based service, Melbourne for our Australian, British and New Zealand services, Montreal for our Canadian services and Amsterdam for non-English European services. Looksmart.com.au was rated the number one navigation service in the Australian market in April 1999 by Top 100.

Strategic Relationships

LookSmart has actively pursued strategic relationships and sees these relationships as key drivers of growth in traffic and revenue. We have relationships with companies for content, distribution, advertising sales, technology and marketing.

Cox Interactive Media

We have a strategic alliance with Cox Interactive Media relating to local websites, local navigation services and local content. LookSmart's US Internet directory is prominently placed on all 23 of Cox's local city sites, e.g., www.accessatlanta.com, and Cox Interactive Media, using its own editorial staff, provides the local content for 65 city markets for LookSmart's United States directory database using a licensed copy of our proprietary Editorial Support System.

Microsoft

We entered into a five year licensing agreement with Microsoft in December 1998 under which Microsoft licensed our directory database for use on the msn.com website and other properties. See "Risk Factors--Our quarterly revenues and operating results may fluctuate due to the timing of delivery of URLs under our Microsoft contract and other factors, which may negatively affect our stock price", "--We derive a significant amount of our revenues from Microsoft and if our relationship with Microsoft suffers, our business could be harmed" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Guthy-Renker Corporation

In April 1999, we acquired the website presence building businesses of Guthy-Renker Internet to begin our services for the small business market. We also acquired the online sales rights to Guthy-Renker Corporation's "As Seen on TV" products. We receive media support from Guthy-Renker Corporation in the form of advertising in Guthy-Renker Corporation infomercials.

PBS

In June 1999, we entered into five agreements with three PBS related entities under which we agreed to sponsor five programs on PBS. The programs are Mystery!, Chefs of Cucina Amore, Great Food, MasterChef USA and Sesame Street. Four of the agreements have five-year terms, however either party has the right to terminate the agreements after three years. The fifth agreement has a three-year term and gives LookSmart a right of first refusal for years four and five.

Excite@Home

In June 1999, we entered a three-year licensing agreement with Excite@Home Corporation under which Excite@Home licensed our directory databases for use on the excite.com website and other properties. LookSmart agrees to update the database periodically and to share advertising revenues.

Competition

We compete in markets that are new, intensely competitive, highly fragmented and rapidly changing. We compete on the basis of several factors, including the quality of content and the ease of use of online services. In the licensing market, there are additional factors such as performance, scalability, price, and relevance of results. The number of companies and websites competing for users, Internet advertisers' and ecommerce marketers' spending has increased significantly. With no substantial barriers to entry in these markets, we expect this competition to continue to increase. Competition may also increase as a result of industry consolidation.

We face direct competition from companies that provide several types of Internet services, as illustrated in the following table.

| Category | Focus | Example Competitors |
|--|--|---|
| Internet content retrieval Lycos | Internet navigation, content aggregation, content licensing | AOL, Yahoo!, Snap!, Infoseek, Inktomi, and Netscape Open Directory |
| Internet advertising | Demographically targeted and content-targeted advertising | Internet destinations with similar demographics like iVillage and women.com; Internet navigation firms with similar content targeting capabilities like AOL, Yahoo!, InfoSeek and Lycos |
| Internet outsourcing | Outsourcers of Internet navigation, Internet portal or website enhancement content | Inktomi, InfoSpace.com, Snap.com, Lycos, PlanetDirect.com and XOOM.com |
| Online commerce enabling TicketMaster-CitySearch, companies | Small vendors Internet and transaction enabling | AOL's Digital Cities, Sidewalk, Go2Net, iMall and Hypermart |

See "Risk Factors--If we are unable to compete effectively in the Internet navigation market, our business and profitability will suffer".

Infrastructure

Technology

One of our principal assets is our internally-developed software for creating and distributing the LookSmart directory. In addition, we use a variety of hardware and communications technologies to distribute and maintain our business.

Editorial Support System. We have developed a proprietary software application, the Editorial Support System, used by our editors to discover, edit, and catalog websites into the LookSmart database. This system undergoes frequent revision and upgrade and over 200 editors can use the application simultaneously. In addition to the Editorial Support System, we have developed several

proprietary algorithms which enable us to extract data from the database, publish this data in various editions of the directory and perform routine maintenance on the database, such as deadlink checking.

The Editorial Support System also provides various statistical and reporting functions, including editorial productivity levels and work quality, and identifies trends in user preferences. We have recently enhanced the system to include multi-language capabilities.

Taxonomy and Search. We publish our data in a proprietary and unique set of categories in a specific taxonomy. This taxonomy has over 60,000 categories. We have developed proprietary search technology to search this database and return relevant answers to users.

Server Architecture. We believe we have developed a proprietary, dynamic and scalable server software architecture that allows us to support our ISP partners by serving custom versions of the ISP's home page or any other page on the ISP's website as part of our distribution of our directory content. In January 1999, we signed a license agreement with Engage Technologies to license their Accipiter advertising server technology. We converted our advertising serving functionality from an internal proprietary application to the Accipiter technology effective in March of this year.

Frontier. In February 1999, we signed an agreement with Frontier to provide co-location, Internet connectivity, and maintenance of our hardware equipment at Frontier's Santa Clara, California facility. Frontier provides comprehensive facilities management services, including human and technical monitoring of all production servers, 24 hours per day, seven days per week.

Sales

Our advertising sales were handled through Softbank Interactive Marketing until October 1997 and by DoubleClick, Inc. from October 1997 through mid-1998. In an effort to maintain stronger relationships and loyalties with our advertisers and to reduce advertising sales costs as a percentage of revenues, in mid-1998 we created our own sales organization, including a national sales team of 20 personnel located in San Francisco, New York, Detroit and Austin. We plan to expand the size of the team and the location of the offices commensurate with traffic expansion.

Advertising

The following is a list of some of the advertisers that have recently advertised on our looksmart.com website: Amazon.com, Apple, Baby Center, Bell Atlantic, Budget Rent-A-Car, Capital One, Chrysler, Compaq, Discover, eBay, Farmers Insurance, JC Penney, Jenny Craig, Microsoft, Mitsubishi, NationsBank and Office Depot.

Marketing

We believe that marketing and brand promotion activities will be important in our efforts to build traffic and attract additional advertisers and ecommerce partners. We have initiated a multi-tiered marketing and advertising strategy. The trade segment of our marketing strategy targets:

- . the ISP community, focusing on turn-key branded opportunities;
- . advertising agency media planners and the vendor advertising community, focusing on LookSmart's ability to deliver the New Media Family; and
- . Internet industry marketing executives to reach and sell our roster of top 100 websites that have adopted our search directory.

We plan to launch a broad, national consumer advertising campaign in early fall of 1999. The campaign may involve television, online, print, radio, cable, or outdoor marketing media. All of our advertising and messaging is based on focus group and quantitative research. Our marketing strategy also employs selective trade show and public relations promotional efforts.

Legal Proceedings

On October 5, 1998, Hollinger Digital, Inc. filed a complaint against us in New York Supreme Court (Case No. 604797/98). The complaint alleges that we breached an agreement to sell 2,039,865 (pre-split) shares of our Series C preferred stock to Hollinger for \$3.50 per share. The complaint also asserts claims for promissory and equitable estoppel. On the same day it filed its complaint, Hollinger sought preliminary injunctive relief to prevent us from taking any action that would interfere with Hollinger's alleged right to purchase the Series C preferred stock. The Court denied Hollinger's motion for preliminary injunction. On December 1, 1998, we filed a motion to dismiss Hollinger's complaint. On March 17, 1999, the Court issued an order granting our motion and dismissed Hollinger's complaint with prejudice. On May 4, 1999, Hollinger filed a Notice of Appeal. We believe that Hollinger's complaint is without merit and we will continue to vigorously defend the lawsuit.

Except for the Hollinger litigation, we are not a party to any material legal proceedings.

Employees

We had 184 employees at the end of 1998, and 465 as of June 30, 1999. We have never had a work stoppage, and none of our employees is represented by a labor union. We consider our relations with our employees to be good.

Facilities

Our headquarters are located in 9,884 square feet of leased office space in San Francisco, California. The lease term for our headquarters extends to May 31, 2003. We also lease space at four other locations in San Francisco, including 20,000 square feet of office space that has a lease term extending to October 31, 1999 and 17,000 square feet of space that has a lease term extending to November 29, 2000. We have recently leased an additional 134,847 square feet of office space, which will be available in October 1999 and will allow us to consolidate our operations and continue to expand our business. The lease term for this additional space provides us with an option to renew the lease for two additional five-year periods after the initial lease term of ten years expires. We also lease 3,750 square feet of office space in New York that has a lease term extending to August 31, 2000. We also lease facilities overseas. In particular, we have a three-year lease on a 4,800 square foot property in Melbourne, Australia. The Melbourne lease extends until August 2001. Also, we have a smaller 2,650 square foot property in Sydney, Australia, which has a lease term extending until May 2002. We also plan to enter into leases for other smaller facilities that provide for additional storage space.

MANAGEMENT

Directors and Executive Officers

Our current directors and executive officers are:

| Name | Age | Position with LookSmart |
|-----------------------------|-----|--|
| ----- | --- | ----- |
| | | Chairman, Chief Executive Officer, |
| Co-Founder | | |
| Evan Thornley..... | 34 | and Director |
| Tracey Ellery..... | 36 | President, Co-Founder and Director |
| Patricia Cole..... | 49 | Chief Financial Officer |
| David Neylon..... | 52 | Senior Vice President, Engineering |
| Brian Cowley..... | 40 | Senior Vice President, Global Sales |
| Martin Hosking..... | 38 | Senior Vice President, Distribution |
| Val Landi..... | 54 | Senior Vice President, Marketing |
| Chris Tucher..... | 38 | Senior Vice President, Business Development |
| Timothy Pethick..... | 37 | Vice President, International and CEO, LookSmart International Pty Ltd. |
| Ned Brody..... | 35 | Vice President, eCommerce |
| Martha Clark..... | 45 | Vice President, Human Resources |
| Anthony D. Castagna(2)..... | 52 | Director |
| Paul Riley(1)..... | 34 | Director |
| Robert J. Ryan(2)..... | 51 | Director |
| Scott Whiteside(1)..... | 48 | Director |

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

Evan Thornley co-founded LookSmart and has served as its Chairman and Chief Executive Officer and a director since July 1996. From July 1996 to June 1999, Mr. Thornley also served as President. From 1991 to 1996, Mr. Thornley was a consultant at McKinsey & Company, a global consulting company, in their New York, Kuala Lumpur and Melbourne offices. Mr. Thornley holds a Bachelor of Commerce and a Bachelor of Laws from the University of Melbourne, Australia. Mr. Thornley is married to Ms. Ellery.

Tracey Ellery co-founded LookSmart and has served as President since June 1999. Ms. Ellery has served as one of our directors since September 1997, and as our Senior Vice President of Product from July 1996. From 1991 to 1994, Ms. Ellery was Chief Executive Officer of Student Services Australia, an Australian college publishing/retail company. Ms. Ellery studied Drama and Legal Studies at Deakin University, Australia. Ms. Ellery is married to Mr. Thornley.

Patricia Cole has served as our Chief Financial Officer since February 1999. From September 1995 to February 1999, Ms. Cole served as Chief Financial Officer of Fair, Isaac and Company, a credit scoring company. From 1992 to September 1995, Ms. Cole served as Vice President, Controller at Qwest Communications International Inc., a telecommunications company. Ms. Cole is a C.P.A., Chartered Accountant in England, and holds a B.A. in economics from the University of Manchester, England, an M.B.A. from Cranfield Business School, England, and a Masters of Business Taxation from the University of Southern California.

David Neylon has served as our Chief Operating Officer since November 1998 and Senior Vice President of Engineering from June 1999. From March 1995 to February 1998, Mr. Neylon was Senior Vice President at World Play Entertainment, a network games and entertainment company. From 1987 to February 1995, Mr. Neylon held a variety of positions in AT&T Corp., including Vice President of ImagiNation Network, a subsidiary of AT&T, from 1993 to 1995. Mr. Neylon holds a B.A. in Economics from Drew University and an M.B.A. in finance and marketing from Rutgers University.

Brian Cowley has served as our Senior Vice President of Global Sales since December 1998. From August 1997 to December 1998, Mr. Cowley served as our Senior Vice President of Global Sales and Distribution and as our Vice President of Advertising Sales from October 1996 to August 1997. From February 1996 to October 1996, Mr. Cowley served as Business Development Manager at Netscape Communications Corporation, overseeing advertising sales on the Netscape Netcenter website. From April 1995 to March 1996, Mr. Cowley served as Vice President of Sales and Product Marketing in the Data Products Division of Strategic Mapping, Inc., a marketing data company. From June 1994 until April 1995, Mr. Cowley worked as a Vice President of Sales at Consumer Direct Access, a company he co-founded, in San Francisco. Mr. Cowley holds a B.S. in marketing from Bryant College.

Martin Hosking joined the Company in January 1996 and has held a variety of senior management positions, most recently as Senior Vice President, Distribution since July 1998. From 1994 to 1996, Mr. Hosking was a consultant at McKinsey & Company, a management consulting company. Mr. Hosking holds a B.A. in history and economics and an M.B.A. from the University of Melbourne, Australia.

Val Landi has served as our Senior Vice President of Marketing & Media Services since August 1998. From October 1997 to July 1998, Mr. Landi served as Vice President, Sales and Marketing of Carnelian, Inc., an Internet software company, and from April to September 1997 as Executive Vice President of Power Agent, an Internet media company. From March 1995 to March 1997, Mr. Landi served as Publisher and General Manager of International Data Group/Computerworld Internet Media, an information technology company, Corporate Vice President of International Data Group from 1994 to 1995, and as Executive Vice President of International Data Group's International Marketing Services from 1991 to 1995. Mr. Landi holds an M.A. from Harvard University.

Chris Tucher has served as our Vice President of Business Development and Syndication since August 1998 and Senior Vice President of Business Development from June 1999. From August 1995 to August 1998, Mr. Tucher served as Director of Sales and Marketing and Media and Financial Markets at Netscape Communications Corporation, an Internet software company. From 1991 to 1995, Mr. Tucher was a vice president and member of the executive board of the Contra Costa Newspapers, Inc., a news publishing company. Mr. Tucher holds a B.A. in English and economics from Occidental College, and an M.B.A. from the Harvard Business School.

Timothy Pethick has served as our Vice President of International and as Chief Executive Officer and Director of LookSmart International Pty Ltd., our Australian subsidiary, since March 1999. From August 1996 to March 1999, Mr. Pethick was employed in several positions by Encyclopedia Britannica, Inc., a publishing company, most recently as General Manager of Sales and Marketing. From 1995 to 1996, Mr. Pethick was Managing Director of On Australia Pty. Limited, an Internet/online publishing company, and from 1994 to 1995, he was General Manager of Roadshow New Media, a CD-ROM publishing company. Mr. Pethick holds a Bachelor of Commerce from the University of New South Wales, a Masters of Economics from Macquarie University, and an M.B.A. from Deakin University, Australia. Mr. Pethick is a Chartered Accountant in Australia.

Ned Brody has served as our Vice President of eCommerce since November 1998. From 1993 to November 1998, Mr. Brody was a Partner at Mercer Management Consulting, a management consulting company. Mr. Brody holds a B.S. in economics and an M.B.A. from Wharton School, University of Pennsylvania.

Martha Clark has served as our Vice President of Human Resources since May 1999. From October 1998 to April 1999, Ms. Clark was a consultant. From January 1997 to October 1998, Ms. Clark was Senior Vice President and Human Resources Division Manager of Sumitomo Bank of California, a commercial bank. From August 1995 to January 1997, Ms. Clark was Director and Co-Founder of John Parry & Alexander, a human resources consulting company. From 1993 to 1995, Ms. Clark was Director

of Human Resources of Fritz Companies, Inc., a global logistics services company. Ms. Clark holds a B.A. in economics from Wellesley College and an M.B.A. from Stanford University.

Anthony D. Castagna has served as one of our directors since March 1999. Dr. Castagna presently serves as a non-executive director of GlobalGate LLC, an Internet-related technology holding company, and as a non-executive director of Macquarie Technology Funds Management Pty Limited, an Australian venture capital fund. From 1994 to present, Dr. Castagna has served as an independent advisor to the Macquarie Technology Investment Banking Division of Macquarie Bank Limited, an investment banking company, and other technology-based companies in Australia, Asia and the U.S. Dr. Castagna holds a Bachelors of Commerce from the University of Newcastle, Australia, and an M.B.A. and Ph.D. in Finance from the University of New South Wales, Australia.

Paul Riley has served as a one of our directors since March 1998. Since November 1992, Mr. Riley has served as a Managing Director and Company Secretary, of Australian Mezzanine Investments Pty Limited, an Australian venture capital company, and several of its affiliated entities. Mr. Riley also serves as director of other private and public Australian companies. Mr. Riley holds a Bachelor of Business in accounting from the University of Western Sydney, Australia.

Robert J. Ryan has served as one of our directors since May 1998. Since 1995, Mr. Ryan has served as Chairman of Entrepreneur America, LLC, a business consulting company. From 1989 to 1995, Mr. Ryan founded and served as Chief Executive Officer and Chairman of Ascend Communications, Inc., a networking company. Mr. Ryan holds a B.A. in Mathematics from Cornell University and an M.A. in mathematics from the University of Wisconsin.

Scott Whiteside has served as one of our directors since May 1998. Since October 1995, Mr. Whiteside has served as Director of Strategy and Technology/New Media at Cox Enterprises, Inc., a media conglomerate. From 1993 to 1995, Mr. Whiteside served as a Director of Strategic Development at Times Mirror Company, a publishing company. Mr. Whiteside holds a B.S. in journalism from the University of Missouri, an M.B.A. from Rockhurst College, and a J.D. from Oklahoma University.

Board Composition

LookSmart's Board of Directors is comprised of six directors. In accordance with the terms of LookSmart's Restated Certificate of Incorporation, effective upon the closing of this offering, the terms of office of the members of the Board of Directors will be divided into three classes: Class I, whose term will expire at the annual meeting of stockholders to be held in 2000, Class II, whose term will expire at the annual meeting of stockholders to be held in 2001, and Class III, whose term will expire at the annual meeting of stockholders to be held in 2002. The Class I directors are Paul Riley and Robert J. Ryan, the Class II directors are Anthony Castagna and Scott Whiteside, and the Class III directors are Evan Thornley and Tracey Ellery. At each annual meeting of stockholders after the initial classification, the successors to directors whose term will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. In addition, LookSmart's Amended and Restated Bylaws provide that the authorized number of directors may be changed only by resolution of the Board of Directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors. This classification of the Board of Directors may have the effect of delaying or preventing changes in control or management of LookSmart.

Each officer is elected by, and serves at the discretion of, the Board of Directors. Each of LookSmart's officers and directors, other than non-employee directors, devotes full time to the affairs of LookSmart. LookSmart's non-employee directors devote time to the affairs of LookSmart as is necessary to discharge their duties.

Board Committees

The Audit Committee reviews LookSmart's audited financial statements and accounting practices, and considers and recommends the employment of, and approves the fee arrangements with, independent accountants for both audit functions and for advisory and other consulting services. The current members of the Audit Committee are Paul Riley and Scott Whiteside.

The Compensation Committee reviews and approves the compensation and benefits for our key executive officers, administers our employee benefit plans and makes recommendations to the Board of Directors regarding issuances of stock options and any other incentive compensation arrangements. The current members of the Compensation Committee are Anthony Castagna and Robert J. Ryan.

Compensation Committee Interlocks and Insider Participation Interlocks

The compensation committee was established in March 1999. Prior to that time, the entire board of directors participated in compensation decisions. In particular, Mr. Thornley and Ms. Ellery, each an officer and employee of LookSmart, actively participated in the deliberations concerning executive officer compensation.

Director Compensation

The directors do not receive any compensation for their service as directors, other than reimbursement of all reasonable out-of-pocket expenses for attendance at board meetings.

Executive Compensation

The following summary compensation table sets forth the compensation paid to LookSmart's named executive officers, who are our Chief Executive Officer and each of our three other most highly compensated executive officers, during the fiscal year ended December 31, 1998.

Summary Compensation Table

| Name and Principal Position(1) | Annual Compensation | | | Long-Term Compensation Awards | All Other Compensation(2) |
|--|---------------------|----------|---------------------------|-------------------------------|---------------------------|
| | Salary | Bonus | Other Annual Compensation | Securities Underlying Options | |
| Evan Thornley..... Chairman, Chief Executive Officer and Director | \$137,136 | -- | \$30,323(3) | -- | -- |
| Brian Cowley..... Senior Vice President, Global Sales | 190,000(4) | -- | -- | -- | \$7,969 |
| Barbara Bergin Read..... Vice President, Advertising Sales | 172,057(5) | \$17,500 | -- | -- | 5,375 |
| Michael Reaves..... Vice President, Engineering | 120,000 | -- | -- | 63,000 | 3,500 |

(1) Mr. Landi joined us in August 1998 as our Senior Vice President of Marketing and will be compensated at an annual base of salary of \$150,000 during the fiscal year ended December 31, 1999. Mr. Neylon joined us in November 1998 as our Chief Operating Officer and will be compensated at an annual base salary of \$180,000 during the fiscal year ended December 31, 1999. Ms. Cole joined us in February 1999 as our Chief Financial Officer and will be compensated at an annual base salary of \$200,000 during the fiscal year ended December 31, 1999.

(2) Consists of 401(k) contributions made by LookSmart for the benefit of the Executive Officer.

(3) Consists of rental housing allowance.

(4) Includes \$37,500 earned as commissions.

(5) Includes \$19,866 earned as commissions.

The following table sets forth information with respect to stock options issued to each of the named executive officers during the fiscal year ended December 31, 1998.

Option Grants in Last Fiscal Year

| Name(1) | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation or Option Term(3) | |
|--------------------------|------------------------------|--|--------------------------|-----------------|--|----------|
| | Number of Options Granted(2) | % of Total Options Granted to Employees in Fiscal Year | Exercise Price Per Share | Expiration Date | 5% (\$) | 10% (\$) |
| | | | | | | |
| Evan Thornley..... | -- | -- | -- | -- | -- | -- |
| Brian Cowley..... | -- | -- | -- | -- | -- | -- |
| Barbara Bergin Read..... | -- | -- | -- | -- | -- | -- |
| Michael Reaves..... | 63,000 | 0.01% | \$0.833 | 8/19/2008 | \$17,103 | \$35,601 |

(1) In September 1998, we issued to Mr. Landi an option to purchase 600,000 shares of common stock at an exercise price of \$0.1167 per share, which expires on September 2, 2008. In November 1998, we issued to Mr. Neylon an option to purchase 1,050,000 shares of common stock at an exercise price of \$0.167 per share, which expires on November 6, 2008. In February 1999, we issued to Ms. Cole an option to purchase 900,000 shares of common stock at an exercise price of \$1.25 per share, which expires on February 25, 2009.

(2) All options were issued under LookSmart's 1998 Stock Plan. Options issued under the Plan vest over a four-year period with 25% vesting at the first anniversary date of the vest date and the remaining shares vesting in monthly installments over the next 36 months.

(3) Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The assumed 5% and 10% annual rates of stock price appreciation from the date of issuance to the end of the option term are provided in accordance with SEC rules and do not represent our estimate or projection of the future common stock price. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock, overall market conditions and the option holders' continued employment through the vesting period. This table does not take into account any actual appreciation in the price of the common stock from the date of issuance to the present.

The following table sets forth information regarding exercised stock options during the fiscal year ended December 31, 1998, and unexercised stock options held as of December 31, 1998 by each of the named executive officers. None of the named executive officers exercised stock options in 1998.

Fiscal Year-End Option Values

| Name | Number of Securities Underlying Unexercised Options at Fiscal Year-End(1) | | Value of Unexercised In-the-Money Options at Fiscal Year- End(2) | |
|--------------------------|---|---------------|---|-----------|
| Unexercisable | Exercisable | Unexercisable | Exercisable | |
| Evan Thornley..... | -- | -- | -- | -- |
| Brian Cowley..... | 911,250 | 708,750 | \$1,036,091 | \$805,849 |
| Barbara Bergin Read..... | 73,125 | 196,875 | 83,143 | 223,847 |
| Michael Reaves..... | 37,750 | 164,250 | 42,921 | 186,752 |

(1) All options were issued under LookSmart's 1998 Stock Plan. Options issued under the Plan vest over a four-year period with 25% vesting at the first anniversary date of the issuance date and the remaining shares vesting in monthly installments over the next 36 months. The Board retains discretion to modify the terms, including the exercise price, of outstanding options.

(2) Calculated on the basis of the deemed fair market value of the underlying securities as of December 31, 1998 of \$1.147 per share, minus the per share exercise price, multiplied by the number of shares underlying the Option.

Employee Benefit Plans

1998 Stock Plan

LookSmart's 1998 Stock Plan provides for the issuance to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the issuance to employees, directors and consultants of nonstatutory stock options and stock purchase rights, or SPRs. The 1998 Plan was approved by the Board of Directors and by the stockholders in December 1997. The Board of Directors approved amendments to the 1998 Plan to increase the number of shares reserved under the 1998 Plan in November 1998, February 1999, March 1999 and June 1999. The stockholders also approved these amendments to the 1998 Plan in March 1999 and July 1999. Unless terminated sooner, the 1998 Plan will terminate automatically in 2008. A total of 20,850,000 shares of common stock is currently reserved for issuance under the 1998 Plan. The 1998 Plan provides for automatic annual increases on January 1 of each year, beginning in 2000, equal to the lesser of: 2.5 million shares; 4% of the outstanding shares on January 1, or an amount determined by the Board of Directors. As of June 30, 1999, options to purchase 2,009,100 shares of common stock had been exercised and options to purchase 11,861,003 shares of common stock were outstanding under the 1998 Plan with a weighted average exercise price of \$1.17, and 6,979,897 shares were available for future issuance.

The 1998 Plan may be administered by the Board of Directors or a committee of the Board of Directors. This Administrator shall, in the case of options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The Administrator has the power to determine the terms of the options or SPRs issued, including the exercise price, the number of shares subject to each option or SPR, the exercisability thereof, and the form of consideration payable upon such exercise. The Board of Directors has the authority to amend, suspend or terminate the 1998 Plan, provided that this action may not affect any share of common stock previously issued and sold or any option previously issued under the 1998 Plan.

Options and SPRs issued under the 1998 Plan are not generally transferable by the optionee, and each option and SPR is exercisable during the lifetime of the optionee only by that optionee.

Options issued under the 1998 Plan must generally be exercised within three months of the optionee's separation of service from LookSmart, or within twelve months after an optionee's termination by death or disability, but in no event later than the expiration of the option's ten year term. In the case of SPRs, unless the Administrator determines differently, a restricted stock purchase agreement shall give LookSmart a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service for LookSmart for any reason, including death or disability. The purchase price for shares repurchased under the restricted stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to LookSmart. The repurchase option shall lapse at a rate determined by the Administrator. The exercise price of all incentive stock options issued under the 1998 Plan must be at least equal to the fair market value of the common stock on the date of issuance. The exercise price of nonstatutory stock options and SPRs issued under the 1998 Plan is determined by the Administrator, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of Section

162(m) of the Code, the exercise price must at least be equal to the fair market value of the common stock on the date of issuance. The term of all other options issued under the 1998 Plan may not exceed ten years.

The 1998 Plan provides that in the event of a merger of LookSmart with or into another corporation or a sale of substantially all of LookSmart's assets, each option or right shall be assumed or an equivalent option or right substituted by the successor corporation. If the outstanding options or rights are not assumed or substituted as described in the preceding sentence, the Administrator shall notify the optionee that he or she will have the right to exercise the option or SPR as to all of the optioned stock, including shares as to which he or she would not be exercisable, for a period of 15 days from the date of the notice, and the option or SPR will terminate upon the expiration of this period.

1999 Employee Stock Purchase Plan

LookSmart's 1999 employee stock purchase plan was adopted by the Board of Directors in June 1999 and by the stockholders in July 1999. A total of 750,000 shares of common stock have been reserved for issuance under the employee stock purchase plan, plus annual increases on January 1 of each year, beginning in 2000, equal to the lesser of:

- . 1,000,000 shares,
- . 3% of the outstanding shares on January 1, or
- . a lesser amount determined by the Board

As of the date of this prospectus, no shares have been issued under the employee stock purchase plan.

The employee stock purchase plan, which is intended to qualify under Section 423 of the Code, contains consecutive, overlapping, twenty-four month offering periods. Each offering period includes four six-month purchase periods. The offering periods generally start on the first trading day on or after June 1 and December 1 of each year, except for the first such offering period, which begins on the first trading day on or after the effective date of this offering and ends on the last trading day on or before May 31, 2001.

Employees are eligible to participate if they are customarily employed by LookSmart or any participating subsidiary for at least 20 hours per week and more than five months in any calendar year. However, any employee who immediately after issuance owns stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock, or whose rights to purchase stock under all of our employee stock purchase plans accrues at a rate which exceeds

\$25,000 worth of stock for each calendar year may not be granted an option to purchase stock under the employee stock purchase plan. The employee stock purchase plan permits participants to purchase common stock through payroll deductions of up to 15% of the participant's "compensation." Compensation is the participant's base straight time gross earnings and commissions, but exclusive of payments for overtime, shift premium payments, incentive compensation, incentive payments, bonuses and other compensation. The maximum number of shares a participant may purchase during a single purchase period is 2,500 shares.

Amounts deducted and accumulated by the participant are used to purchase shares of common stock at the end of each purchase period. The price of stock purchased under the employee stock purchase plan is generally 85% of the lower of the fair market value of the common stock at the beginning of the offering period or at the end of the purchase period. In the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, the participants will be withdrawn from the current offering period following exercise and automatically re-enrolled in a new offering period. The new offering period will use the lower fair market value as of the first date of the new offering period to determine the purchase price for future purchase periods. Participants may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with LookSmart.

Rights issued under the employee stock purchase plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the employee stock purchase plan. The employee stock purchase plan provides that, in the event of a merger of LookSmart with or into another corporation or a sale of substantially all of LookSmart's assets, each outstanding option may be assumed or substituted for by the successor corporation. If the successor corporation refuses to assume or substitute for the outstanding options, the offering period then in progress will be shortened and a new exercise date will be set. The employee stock purchase plan will terminate in 2009. The Board of Directors has the authority to amend or terminate the employee stock purchase plan, except that no such action may adversely affect any outstanding rights to purchase stock under the employee stock purchase plan.

401(k) Plan

LookSmart's 401(k) plan covers its eligible full-time employees located in the United States. The 401(k) plan is intended to qualify under Section 401(k) of the Internal Revenue Code. Consequently, contributions to the 401(k) plan by employees or by LookSmart, and the investment earnings thereon, are not taxable to employees until withdrawn from the 401(k) plan. Further, contributions by LookSmart, if any, will be deductible by LookSmart when made. Employees may elect to contribute up to 15% of their current compensation to the 401(k) plan up to the statutorily prescribed annual limit, which was \$10,000 in 1998. The 401(k) plan permits, but does not require, additional matching contributions to the 401(k) plan by LookSmart on behalf of all participants in the 401(k) plan. LookSmart matches a portion of the employee's contribution.

Life Insurance Program

LookSmart provides as a benefit to each employee a term life insurance policy in the amount of \$50,000 and an accidental death and dismemberment policy in the amount of \$50,000. Each employee may designate one or more beneficiaries, and the coverage is provided during the term of employment. Upon termination of employment, the employee may convert the policies to individual policies.

Limitation of Liability and Indemnification

LookSmart's Restated Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be

personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for: breach of their duty of loyalty to the corporation or its stockholders; acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; unlawful payments of dividends or unlawful stock repurchases or redemptions; or any transaction from which the director derived an improper personal benefit. This limitation of liability does not apply to liabilities arising under the federal or state securities laws and does not affect the availability of equitable remedies, including injunctive relief or rescission.

LookSmart's Bylaws provide that LookSmart shall indemnify its directors, officers, employees and other agents to the fullest extent permitted by law. LookSmart believes that indemnification under its Bylaws covers at least negligence and gross negligence on the part of indemnified parties. LookSmart's Bylaws also permit it to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether the Bylaws permit the indemnification.

LookSmart has entered into agreements to indemnify its directors and executive officers, in addition to the indemnification provided in its Bylaws. These agreements, among other things, indemnify LookSmart's directors and executive officers for expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by any person in any action or proceeding, including any action by or in the right of LookSmart arising out of that person's services as a director, officer, employee, agent or fiduciary of LookSmart, any subsidiary of LookSmart or any other company or enterprise to which the person provides services at the request of LookSmart. LookSmart believes that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

At present, there is no pending litigation or proceeding involving a director or officer of LookSmart in which indemnification is required or permitted, and LookSmart is not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

CERTAIN TRANSACTIONS

Since our inception in July 1996, we have never been a party to, and we have no plans to be a party to, any transaction or series of similar transactions in which the amount involved exceeds \$60,000, and in which any director, executive officer, or holder of more than 5% of any class of our voting stock, or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than as described under "Management" and the transactions described below.

The share numbers and per share prices for the transactions described below have been adjusted to give effect to the stock splits effected on December 17, 1997, on March 23, 1999 and on July 23, 1999.

Common Stock Transactions

In July 1996, we sold 90,000,000 shares of common stock at the purchase price of \$0.00017 per share to The Reader's Digest Association and 18,000,000 shares of common stock at the purchase price of \$0.00017 per share to Buy Back the Farm, Inc., a Delaware corporation whose principal shareholders were Evan Thornley, Tracey Ellery, and KMG Trust, of which Martin Hosking is a trustee. Mr. Thornley, Ms. Ellery and Mr. Hosking are all executive officers of LookSmart.

In August 1997, we sold 11,640,000 shares of common stock at a purchase price of \$0.00017 per share to The Reader's Digest Association.

In September 1997, we repurchased 101,640,000 shares of our common stock from The Readers Digest Association in exchange for a warrant to purchase 9,000,000 shares of our common stock at an exercise price of \$0.00017 per share.

Preferred Stock Transactions

In May 1998, we sold an aggregate of 6,352,614 shares of Series A preferred stock to investors at a purchase price of \$0.3563 per share in consideration of the cancellation of indebtedness by those investors. These shares of Series A preferred stock shall automatically convert into 6,352,614 shares of common stock upon the completion of this offering. Also, in May 1998, we sold an aggregate of 14,327,748 shares of Series B preferred stock to Cox Interactive Media at a purchase price of \$0.4191 per share, which shares shall automatically convert into 14,327,748 shares of common stock upon the completion of this offering. In October 1998, we sold an aggregate of 6,000,000 shares of Series 1 Junior preferred stock to investors at a purchase price of \$0.5833 per share in connection with the acquisition of BeSeen.com, Inc., which shares shall automatically convert into 6,000,000 shares of common stock upon the completion of this offering. In March and April 1999, we sold an aggregate of 12,083,529 shares of Series C preferred stock to investors at a purchase price of \$5.00 per share, which shares shall automatically convert into 12,083,529 shares of common stock upon the completion of this offering.

The investors in preferred stock include the following entities, which are 5% stockholders of a class of our voting securities or affiliated with our directors or both.

| of | Shares | | | |
|--|------------------------------|------------------------------|------------------------------|-----------------|
| | Shares of Series A Preferred | Shares of Series B Preferred | Shares of Series C Preferred | Series 1 Junior |
| Purchaser(1) | Stock | Stock | Stock | Stock |
| Cox Interactive Media, Inc.(2)(3)(6)..... | | 14,327,748 | 2,410,053 | |
| Entities Affiliated with Australian Mezzanine Investments Pty Limited(2)(4)..... | 4,210,524 | | 400,000 | |
| Entities Affiliated with Macquarie Bank Limited(2)(5)..... | 2,601,936 | | 3,006,502 | |
| Entrepreneur America, LLC(8)..... | | | 171,247 | |
| Entities Affiliated with Drew Duncan(2)(11)..... | 2,259,936 | | | |
| Entities Affiliated with Thomas Duncan and Mary Duncan(2)(12)..... | 681,753 | | | |
| Allen Lee(2)..... | 631,812 | | 119,893 | |
| Entities Affiliated with Josh Elmore(2)(13)..... | 2,171,345 | | | |
| Compress Trading Pty Limited(2)..... | | | 1,275,000 | |
| Entities Affiliated with Amerindo Investment Advisors, Inc.(2)(9)..... | | | 979,999 | |
| Entities Affiliated with Sand Hill Capital LLC(2)(7)..... | 1,500,000 | | 252,312 | |
| Jokren Pty Limited Instanz Nominees Pty Limited(2)(10)..... | 701,748 | | 199,998 | |

(1) See notes to table of beneficial ownership in "Principal Stockholders" for information relating to the beneficial ownership of such shares.

(2) A holder of more than 5% of a class of LookSmart's voting securities.

(3) Mr. Whiteside, one of our directors, is Director of Strategy and Technology/New Media at Cox Enterprises Inc, of which Cox Interactive Media is a division. Mr. Whiteside disclaims beneficial ownership of the shares owned by Cox Interactive Media.

(4) Mr. Riley, one of our directors, is a Director of Australian Venture Capital Nominees Pty Ltd, trustee of the AMWIN Innovation Fund, a 50/50 joint venture between Australian Mezzanine Investments Pty Limited and Walden International Investment Group, Director and Company Secretary of Australian Mezzanine Investments Pty Limited, and the manager of Australian Mezzanine Investments No. 2 Trust. Mr. Riley disclaims beneficial ownership of the shares listed. The aggregate shares listed are owned as follows:

Australian Venture Capital Nominee Pty Ltd as Trustee for AMWIN Innovation Fund holds 4,210,524 shares of Series A preferred stock, and Perpetual Trustee Company Limited as Trustee of the Australian Mezzanine Investments No. 2 Trust holds 400,000 shares of Series C preferred stock. The amount listed above does not include a warrant we issued in May 1998 to purchase an aggregate of 1,010,412 shares of Series A preferred stock to Perpetual Trustee Company Limited, Trustee for Australian Mezzanine Investments, No. 3 Trust, then a holder of shares in excess of 5% of our Series A preferred stock, which was subsequently transferred to another party.

(5) Mr. Castagna, one of our directors, is a Director of Macquarie Technology Fund Management Pty Limited and an independent advisor of Macquarie Technology Investment Banking Division of Macquarie Bank Limited. Mr. Castagna disclaims beneficial ownership of the shares listed. The aggregate shares listed are owned as follows: Macquarie Bank Limited holds 484,218 shares of Series A preferred stock, holds a warrant to purchase 1,512,462 shares of Series A preferred stock, and holds a warrant to purchase 439,999 shares of Series C preferred stock. Perpetual Trustee Company Limited as Trustee for Macquarie Technology Fund 1A holds 302,628 shares of Series A preferred stock and 71,112 shares of Series C preferred stock. Perpetual Trustee Company Limited as Trustee for Macquarie Technology Fund 1B holds 302,628

shares of Series A preferred stock and 71,112 shares of Series C preferred stock. Belike Nominees Pty Limited holds 1,897,566 shares of Series C preferred stock. Perpetual Trustee Company limited as Trustee for Macquarie Select Opportunities Fund holds 201,000 shares of Series C preferred stock. Macquarie PRISM Pty Limited holds 325,713 shares of Series C preferred stock.

(6) Cox Interactive Media also holds 750,000 shares of common stock and a warrant to purchase an aggregate of 1,500,000 shares of our common stock at an exercise price of \$2.50 per share.

(7) In February 1999, Sand Hill Capital LLC exercised its warrant to purchase 1,500,000 shares of our Series A preferred stock. Sand Hill Capital Partners I, LLC holds 252,312 shares of Series C preferred stock.

(8) Mr. Ryan, one of our directors, is the Managing Member of Entrepreneur America, LLC. Entrepreneur America, LLC owns 171,247 shares of Series C preferred stock convertible into common stock. Mr. Ryan disclaims beneficial ownership of the shares held by Entrepreneur America, LLC except as to those shares issuable to Mr. Ryan upon a pro rata distribution by Entrepreneur America, LLC.

(9) The aggregate shares listed for Entities affiliated with Amerindo Investment Advisors, Inc. are owned as follows: Amerlook Investments, LLC holds 18,825 shares of Series C preferred stock. ATGFII holds 661,174 shares of Series C preferred stock. Litton Master Trust holds 300,000 shares of Series C preferred stock.

(10) Jokren Pty Limited and Instanz Nominees Pty Limited are affiliated entities. Jokren Pty Limited holds 350,874 shares of Series A preferred stock and 199,998 shares of Series C preferred stock. Instanz Nominees Pty Limited holds 350,874 shares of Series A preferred stock.

(11) The aggregated shares listed for Mr. Duncan and affiliate entities are owned as follows: Mr. Duncan holds 564,984 shares of Series 1 Junior preferred stock. The Duncan Brothers Retained Annuity Trust, for which Mr. Duncan is trustee, holds 60,000 shares of Series 1 Junior preferred stock. Potato Hill, Ltd., for which Mr. Duncan is general partner, holds 1,634,952 shares of Series 1 Junior preferred stock. Mr. Duncan disclaims beneficial ownership of the shares held by the Duncan Brother Retained Annuity Trust and Potato Hill, Ltd. except as to those shares issuable to Mr. Duncan upon a pro rata distribution by the respective entities.

(12) The aggregated shares listed for Mr. and Mrs. Duncan are owned as follows: Mr. and Mrs. Duncan holds 581,755 shares of Series 1 Junior preferred stock. Of their respective trusts, the Thomas E. Duncan Grantor Retained Annuity Trust, for which Mr. Duncan is trustee, holds 49,999 shares of Series 1 Junior preferred stock, and the Mary Stripling Duncan Grantor Retained Annuity Trust, for which Mrs. Duncan is trustee, holds 49,999 shares of Series 1 Junior preferred stock.

(13) The aggregated shares listed for Mr. Elmore and affiliate entities are owned as follows: Mr. Elmore holds 542,837 shares of Series 1 Junior preferred stock. Elmore Partners, LP, for which Mr. Elmore is general partner and has a pecuniary interest, holds 1,328,508 shares of Series 1 Junior preferred stock. Wal-Par, LP, for which Mr. Elmore is general partner, holds 150,000 shares of Series 1 Junior preferred stock. OWA Partners, LP, for which Mr. Elmore is general partner, holds 150,000 shares of Series 1 Junior preferred stock. Mr. Elmore disclaims beneficial ownership of the shares held by Elmore Partners, LP, Wal-Par, LP and OWA Partners, LP except as to those shares issuable to Mr. Elmore upon a pro rata distribution by the respective entities.

Other Transactions

In May 1998, we entered into a development, licensing and affiliation agreement with Cox Interactive Media, a holder of shares in excess of 5% of our common stock. Revenues from this agreement amounted to \$538,396 for the year ended December 31, 1998.

Upon the completion of this offering, all outstanding shares of Series A preferred stock, Series B preferred stock, Series C preferred stock and Series 1 Junior preferred stock will automatically convert into shares of common stock on a one-for-one basis.

We believe that all transactions between LookSmart and its officers, directors, principal stockholders and other affiliates have been and will be on terms no less favorable to us than could be obtained from other parties.

The holders of converted shares of common stock are entitled to demand and piggy-back registration rights. See "Description of Capital Stock--Registration Rights".

PRINCIPAL STOCKHOLDERS

The following table sets forth the beneficial ownership of our common stock as of June 30, 1999, assuming conversion of all outstanding shares of preferred stock into common stock upon the closing of this offering and as adjusted to reflect the sale of the shares offered by this prospectus, by:

- . each person who is known by us to beneficially own more than 5% of our common stock;
- . each of the Named Executive Officers and by each of LookSmart's directors; and
- . all of our officers and directors as a group.

Percentage of ownership prior to this offering is based on 63,880,465 shares outstanding as of June 30, 1999, assuming conversion of the preferred stock, and percentage of ownership after this offering is based on 75,880,465 shares outstanding after this offering assuming no exercise of the underwriters' over- allotment option.

| Owned(2) | Shares Beneficially | | |
|--|---------------------|---------------------------------|------------------|
| Beneficial Owner Offering | Number | Percent Prior to Offering | Percent After |
| <hr/> | | | |
| Five Percent Stockholders | | | |
| Cox Interactive Media, Inc.(3)..... 1400 Lake Hearn Drive Atlanta, GA 30319 | 18,987,801 | 29.0% | 25.0% |
| The Reader's Digest Association, Inc.(4)..... Reader's Digest Road Pleasantville, NY 10570 | 9,000,000 | 12.3 | 10.6 |
| Evan Thornley(1)(5)..... | 7,725,000 | 12.1 | 10.2 |
| Tracey Ellery(1)(5)..... | 7,725,000 | 12.1 | 10.2 |
| Entities Affiliated with Macquarie Bank Limited(6)..... Macquarie Bank Limited Level 16, 20 Bond Street Sydney, NSW, 2000 Australia | 5,608,438 | 8.5 | 7.2 |
| Entities Affiliated with Australian Mezzanine Investments Pty Limited(7)..... Australian Venture Capital Nominee Pty Ltd Level 2, The Terrace 155 George Street Sydney, NSW, 2000 Australia | 4,610,524 | 7.2 | 6.1 |
| Named Executive Officers and Directors | | | |
| Scott Whiteside(3)(8)..... Cox Interactive Media, Inc. 1400 Lake Hearn Drive Atlanta, GA 30319 | 18,987,801 | 29.0 | 25.0 |
| Evan Thornley(1)(5)..... | 7,725,000 | 12.1 | 10.2 |
| Tracey Ellery(1)(5)..... | 7,725,000 | 12.1 | 10.2 |
| Anthony Castagna(9)..... Macquarie Bank Limited Level 16, 20 Bond Street Sydney, NSW, 2000 Australia | 5,608,438 | 8.5 | 7.2 |
| Paul Riley(10)..... Australian Venture Capital Nominee Pty Ltd. Level 2, The Terrace 155 George Street Sydney, NSW, 2000 Australia | 4,610,524 | 7.2 | 6.1 |
| Brian Cowley(11)..... | 1,181,250 | 1.8 | 1.6 |
| Robert J. Ryan(12)..... 77 Storm King Road Hamilton, MT 59840 | 1,228,747 | 1.9 | 1.6 |
| Barbara Bergin Read(1)(13)..... | 118,125 | * | * |
| Michael Reaves(1)(14)..... | 71,250 | * | * |
| All current directors and executive officers as a group (17 persons)(5)(15)..... | 49,839,885 | 73.0% | 62.1% |

* Less than 1% of LookSmart's outstanding common stock.

(1) Except as otherwise reported the address on each person listed in the table is c/o LookSmart, Ltd., 487 Bryant Street, San Francisco, CA 94107.

(2) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. The number of shares beneficially owned by a person includes shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days. Shares issuable pursuant to options are deemed outstanding for computing the percentage ownership of the person holding those options, but are not deemed outstanding for the purposes of computing the percentage ownership of each other person. Unless indicated below, each stockholder named in the table has sole voting and investment power with respect to all shares beneficially owned, subject to applicable community property laws.

(3) Includes 750,000 shares of common stock, common stock issued upon automatic conversion of 16,737,801 shares of preferred stock and common stock issuable upon exercise of a warrant to purchase 1,500,000 shares of common stock.

(4) The Reader's Digest Association, Inc. holds a warrant to purchase 9,000,000 shares of common stock.

(5) Evan Thornley is also a beneficial owner of the shares of common stock held by Tracey Ellery; Tracey Ellery is also a beneficial owner of the shares of common stock held by Evan Thornley. The shares of common stock beneficially owned by each of Mr. Thornley and Ms. Ellery have been counted once in the total number of shares beneficially owned by them prior to the offering.

(6) Includes: common stock issued upon automatic conversion of 484,217 shares of preferred stock and common stock issuable upon exercise of warrants to purchase an aggregate of 1,952,461 shares of preferred stock owned by Macquarie Bank Limited; 373,740 shares of preferred stock owned by Perpetual Trustee Company Limited as Trustee for Macquarie Technology Fund 1A; 373,740 shares of preferred stock owned by Perpetual Trustee Company Limited as Trustee for Macquarie Technology Fund 1B; 1,897,566 shares of preferred stock owned by Belike Nominees Pty Limited; 201,000 shares of preferred stock owned by Macquarie Select Opportunities Fund; and 325,713 shares of preferred stock owned by Macquarie PRISM Pty Limited.

(7) Includes (a) common stock issued upon automatic conversion of 4,210,524 shares of preferred stock owned by Australian Venture Capital Nominee Pty Ltd as Trustee for AMWIN Innovation Fund, which is a 50/50 joint venture between Australian Mezzanine Investments Pty Limited and Walden International Investment Group, and (b) 400,000 shares of preferred stock owned by Perpetual Trustee Company Limited as Trustee of the Australian Mezzanine Investments No. 2 Trust.

(8) Mr. Whiteside, one of our directors, is Director of Strategy and Technology/New Media at Cox Enterprises, of which Cox Interactive Media is a division. Cox Interactive Media owns 750,000 shares of common stock, 16,737,801 shares of preferred stock convertible into common stock, and a warrant to purchase 1,500,000 shares of common stock. Mr. Whiteside disclaims beneficial ownership of the shares held by Cox Interactive Media.

(9) Dr. Castagna, one of our directors, is a director of Macquarie Technology Fund Management Pty Limited, which is a subsidiary of Macquarie Bank Limited. Entities affiliated with Macquarie Bank Limited are beneficial owners of 3,655,977 shares and warrants to purchase an aggregate of 1,952,461 shares of preferred stock. Dr. Castagna disclaims beneficial ownership of the shares held by Macquarie Bank Limited and its affiliated entities.

(10) Mr. Paul Riley, one of our directors, is a Managing Director of Australian Mezzanine Investments Pty Limited. Entities affiliated with Australian Mezzanine Investments Pty Limited own 4,610,524 shares. Mr. Riley disclaims beneficial ownership of the shares held by Australian Mezzanine Investments Pty Limited and its affiliated entities.

(11) Includes 202,500 shares under stock options that are exercisable within 60 days.

(12) Mr. Ryan, one of our Directors, is the Managing Member of Entrepreneur America, LLC. Entrepreneur America, LLC owns 171,247 shares of preferred stock convertible into common stock. Mr. Ryan disclaims beneficial ownership of the shares held by Entrepreneur America, LLC except as to those shares issuable to Mr. Ryan upon a pro rata distribution by Entrepreneur America, LLC.

(13) Includes 11,250 shares under stock options that are exercisable within 60 days.

(14) Includes 26,250 shares under stock options that are exercisable within 60 days.

(15) Includes an aggregate of 3,452,461 shares of common stock issuable upon exercise of warrants and 956,250 shares under stock options exercisable within 60 days.

DESCRIPTION OF CAPITAL STOCK

General

Our Certificate of Incorporation currently authorizes 155,194,302 shares of common stock, par value \$0.001 per share and 44,805,698 shares of preferred stock. As of June 30, 1999, 23,616,597 shares of common stock were outstanding and 40,263,868 shares of preferred stock, which is comprised of 7,852,609 shares of Series A preferred stock, 14,327,748 shares of Series B preferred stock, 12,083,518 shares of Series C preferred stock and 5,999,993 shares of Series 1 Junior preferred stock. These shares of preferred stock are convertible into an aggregate of 40,263,868 shares of common stock. As of June 30, 1999, we had 109 stockholders.

Our Restated Certificate of Incorporation, which will become effective upon the closing of this offering, authorizes the issuance of up to 200,000,000 shares of common stock, par value \$0.001 per share, and 5,000,000 shares of preferred stock, par value \$0.001 per share, the rights and preferences of which may be established from time to time by our Board of Directors.

Common Stock

Each holder of common stock is entitled to one vote for each share on all matters to be voted upon by the stockholders and there are no cumulative voting rights. Subject to preferences to which holders of preferred stock issued after the sale of the common stock offered hereby may be entitled, holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefor. Please see "Dividend Policy". In the event of a liquidation, dissolution or winding up of LookSmart, holders of common stock would be entitled to share in LookSmart's assets remaining after the payment of liabilities and the satisfaction of any liquidation preference issued to the holders of any outstanding shares of preferred stock. Holders of common stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and the shares of common stock offered by LookSmart in this offering, when issued and paid for, will be fully paid and nonassessable. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by the rights of the holders of shares of any series of preferred stock, which LookSmart may designate in the future.

Preferred Stock

Upon the closing of this offering, the Board of Directors will be authorized, subject to any limitations prescribed by law, without stockholder approval, from time to time to issue up to an aggregate of 5,000,000 shares of preferred stock, \$0.001 par value per share, in one or more series, each of the series to have such rights and preferences, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the Board of Directors. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for others to acquire, or of discouraging others from attempting to acquire, a majority of the outstanding voting stock of LookSmart. LookSmart has no present plans to issue any shares of preferred stock.

Warrants

As of June 30, 1999, giving effect to the conversion of all preferred stock into common stock, we had outstanding warrants to purchase an aggregate of 15,995,336 shares of common stock, all of which are immediately exercisable. Of these, warrants to purchase 3,024,924 shares of preferred

stock and 9,453,749 shares of common stock expire immediately prior to the closing of this offering. The remaining warrants expire at various dates through March 2005. Our warrant holders include the following:

The following table sets forth warrants outstanding as of June 30, 1999 (in thousands, except for per share data):

| Date of issuance | Type | Number of warrants | Exercise price | Expires |
|---------------------|--------------------|--------------------|----------------|----------------|
| September 1997..... | Common | 9,000 | \$0.0002 | September 2007 |
| March 1998..... | Series A preferred | 1,010 | \$0.3563 | March 2005 |
| May 1998..... | Series A preferred | 3,025 | \$0.4191 | May 2005 |
| May 1998..... | Common | 1,500 | \$ 2.50 | May 2003 |
| September 1998..... | Common | 480 | \$0.4183 | September 2003 |
| March 1999..... | Series C preferred | 440 | \$ 5.00 | March 2002 |
| June 1999..... | Common | 540 | \$ 1.25 | June 2004 |

Some of the warrants have a net exercise provision under which the holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares, based on the fair market value of our stock at the time of the exercise of the warrant, after deducting the aggregate exercise price.

Registration Rights

The Second Amended and Restated Investors' Rights Agreement, dated March 24, 1999, allows the holders of approximately 42,208,612 shares of common stock, and the holders of 13,475,335 shares of common stock issuable upon exercise of warrants or their permitted transferees, rights to require LookSmart to register those shares under the Securities Act six months after the closing of this offering. LookSmart's obligation to register these shares include the following:

. at any time after six months following this offering, at the request of the holders of at least 30% of the outstanding shares of the registrable securities issued or issuable upon conversion of either the Series A preferred stock or of the Series 1 Junior preferred stock if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$3,000,000; provided, however, that LookSmart is not required to effect more than one registration on behalf of the holders of the Series A preferred stock, and one registration on behalf of the holders of the Series 1 Junior preferred stock; or

. at any time after the earlier of November 7, 1999 and six months following this offering, at the request of the holders of at least 30% of the outstanding shares of the registrable securities issued or issuable upon conversion of the Series B preferred stock if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$3,000,000; provided, however, that LookSmart is not required to effect more than two registrations on behalf of the holders of the Series B preferred stock; or

. at any time after six months following this offering, at the request of the holders of at least 30% of the outstanding shares of the registrable securities issued or issuable upon conversion of the Series C preferred stock if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$10,000,000; provided, however, that LookSmart is not required to effect more than one registration on behalf of the holders of the Series C preferred stock.

The holders of 20% of these registrable securities may require LookSmart to register all or a portion of their registrable securities on Form S-3 when LookSmart is eligible to use such form, provided that the proposed aggregate price to the public is at least \$1,000,000.

Each of the foregoing registration rights is qualified by conditions, including the right of the underwriters in any underwritten offering to limit the number of shares to be included in a registration due to market or other conditions.

If LookSmart registers any of its common stock for its own account or for the account of other security holders, the holders of registrable securities will be entitled to include their shares of common stock in the registration, unless the underwriters limit the number of shares included in the offering. The shares of holders of registrable securities wishing to register their shares cannot be reduced below 25% of the total number of shares in that registration. The Restricted Stock Agreement between Guthy-Renker Internet, LLC and LookSmart, allows the holders of 2,550,000 shares of our common stock "piggyback" registration rights. The underwriters can limit the number of shares to be included in this "piggyback" registration. LookSmart will bear all fees, costs and expenses of all registrations, other than underwriting discounts and commissions. Once the registration statement filed to register LookSmart's common stock is effective, these shares become freely tradable, without any restrictions imposed by the Securities Act.

Effect of Provisions of the Certificate of Incorporation and Bylaws and the Delaware Anti-Takeover Statute

LookSmart's Restated Certificate of Incorporation and Bylaws may make it more difficult for stockholders to take various corporate actions. In particular, some provisions make it difficult for others to acquire, or may discourage others from attempting to acquire, control of LookSmart. These provisions could limit the price that investors might be willing to pay in the future for shares of LookSmart's common stock. Other provisions allow LookSmart to issue preferred stock without any vote or further action by the stockholders and eliminate the right of stockholders to call a special meeting of stockholders or act by written consent without a meeting.

In addition, LookSmart must comply with Section 203 of the Delaware General Corporation Law which, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder, unless: prior to such date, the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; upon completion of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding for purposes of determining the number of shares outstanding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held under the plan will be tendered in a tender or exchange offer; or on or subsequent to that date, the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

LookSmart's Restated Certificate of Incorporation provides that, upon the closing of this offering, the Board of Directors will be divided into three classes of directors with each class serving a staggered three-year term. The classification system of electing directors may tend to discourage others from making a tender offer or attempting to obtain control of LookSmart. The classification of the Board of Directors increases the difficulty of replacing a majority of the directors and may maintain the incumbency of the Board of Directors. The Restated Certificate of Incorporation and Bylaws do not provide for cumulative voting in the election of directors. The amendment of any of the provisions described above would require approval by holders of at least 66 2/3% of the outstanding common stock.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our common stock is ChaseMellon Shareholder Services.

SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there was no public market for our common stock. Future sales of substantial amounts of common stock in the public market could adversely affect the market price of our common stock.

Upon completion of this offering, we will have outstanding an aggregate of 88,359,138 shares of common stock, assuming the issuance of 12,000,000 shares of common stock offered hereby and no exercise of options after June 30, 1999. Of these shares, the 12,000,000 shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by "affiliates" of LookSmart as that term is defined in Rule 144 under the Securities Act, whose sales would be subject to certain limitations and restrictions described below.

The remaining 76,359,138 shares of common stock held by existing stockholders were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. All of these shares will be subject to "lock-up" agreements described below on the effective date of this offering. Upon expiration of the lock-up agreements 180 days after the effective date of this offering, 5,161,547 shares will become eligible for sale, within the limitations of Rule 144.

| Days After Date of this Prospectus ----- | Shares Eligible for Sale ----- | Comment |
|--|--------------------------------------|---|
| Upon Effectiveness..... saleable | 0 | Freely tradeable shares |
| 180 days..... | 5,161,547 | under Rule 144(k) that are not covered by the lock-up Lock-up released; shares saleable under Rules 144 and 701 |

In addition, holders of stock options could exercise such options and sell the shares issued upon exercise. As of June 30, 1999, a total of 11,861,003 shares of common stock were issuable under outstanding options under our 1998 Stock Plan, approximately 854,500 of which were vested and exercisable. All options held by officers and directors of LookSmart are covered by 180-day lock-up agreements described below. Immediately after the completion of this offering, we intend to file registration statements on Form S-8 under the Securities Act to register all of the shares of common stock issued or reserved for future issuance under the 1998 Stock Plan and 1999 Employee Stock Purchase Plan. On the date 180 days after the effective date of this offering, a total of approximately 3,306,769 shares of common stock issuable under outstanding options will be vested and exercisable. After the effective dates of the registration statements on Form S-8, shares purchased upon exercise of options issued under to the 1998 Stock Option Plan and 1999 Employee Stock Purchase Plan generally would be available for resale in the public market.

The holders of approximately 42,208,612 shares of outstanding common stock and warrants to purchase 13,475,335 shares of common stock have rights to require us to register those shares under the Securities Act beginning six months after the closing of this offering. See "Description of Capital Stock-- Registration Rights".

Our officers and directors and all of our existing stockholders agreed not to sell or dispose of any of their shares for a period of 180 days after the date of this offering. Goldman, Sachs & Co. may in its sole discretion release all or any portion of the shares covered by lock-up agreements.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year

would be entitled to sell in "broker's transactions" or to market makers, within any three-month period, a number of shares that does not exceed the greater of:

. 1% of the number of shares of common stock then outstanding, which will equal approximately 883,591 shares immediately after this offering; or

. the average weekly trading volume in the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are generally subject to the availability of current public information about LookSmart.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been an affiliate of LookSmart at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell the shares without having to comply with the manner of sale, public information, volume limitation or notice filing provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

Rule 701

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this offering is entitled to sell those shares 90 days after the effective date of this offering in reliance on Rule 144, without having to comply with the holding period and notice filing requirements of Rule 144 and, in the case of non-affiliates, without having to comply with the public information, volume limitation or notice filing provisions of Rule 144.

The SEC has indicated that Rule 701 will apply to typical stock options issued by an issuer before it becomes covered by the reporting requirements of the Securities Exchange Act of 1934, along with the shares acquired upon exercise of those options, including exercises after the date of this prospectus. Securities issued in reliance on Rule 701 are restricted securities and, within the contractual restrictions described above, beginning 90 days after the date of this prospectus, may be sold by persons other than "affiliates", as defined in Rule 144, subject only to the manner of sale provisions of Rule 144 and by "affiliates" under Rule 144 without compliance with its one-year minimum holding period requirements.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for LookSmart by Wilson Sonsini Goodrich & Rosati, P.C., Palo Alto, California. Legal matters specified by the underwriters will be passed upon for the underwriters by Shearman & Sterling, Menlo Park, California. As of the date of this prospectus, WS Investment Company 99A, an investment partnership composed of current and former members of and persons associated with Wilson Sonsini Goodrich & Rosati, P.C., and members of Wilson Sonsini Goodrich & Rosati, P.C., beneficially own an aggregate of 19,998 shares of LookSmart Series C preferred stock.

EXPERTS

The consolidated financial statements and financial statement schedule of LookSmart, Ltd. as of December 31, 1997 and 1998 and for the period from July 19, 1996 (date of incorporation) through December 31, 1996 and for the years ended December 31, 1997 and 1998 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of the firm as experts in auditing and accounting.

The financial statements of BeSeen.com, Inc. as of December 31, 1997 and September 30, 1998 and for the period from January 27, 1997 (date of inception) through December 31, 1997 and for the nine months ended September 30, 1998 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of the firm as experts in auditing and accounting.

The financial statements of Guthy-Renker Internet, LLC as of January 3, 1999 and December 31, 1997, and for the 53 weeks ended January 3, 1999, and the year ended December 31, 1997 appearing in this prospectus, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing in this prospectus, and are included in reliance upon such report given upon the authority of the firm as experts in accounting and auditing.

The financial statements of ITW NewCorp, Inc. as of December 31, 1997 and 1998 and March 31, 1999 and for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1999 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of the firm as experts in auditing and accounting.

The financial statements of HomeBase Directories Pty Ltd. as of July 24, 1996 and for the period from January 1, 1996 to July 24, 1996 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of the firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

LookSmart has filed with the Securities and Exchange Commission a registration statement on Form S-1, including exhibits and schedules, under the Securities Act, with respect to the shares to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement. For further information with respect to LookSmart and the common stock offered in this prospectus, reference is made to the registration statement, including the exhibits thereto, and the financial statements and notes filed as a part thereof. With respect to each such document filed with the Commission as an exhibit to the registration statement, reference is made to the exhibit for a more complete description of the matter involved.

You may read and copy all or any portion of the registration statement or any reports, statements or other information LookSmart files with the Commission at the Commission's public reference room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.C., Washington, D.C. 20549 and at the regional offices of the Commission located at Seven World Trade Center, 13th Floor, New York, New York 10048 and the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You can request copies of these documents upon payment of a duplicating fee, by writing to the Commission. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. LookSmart's Commission filings, including the registration statement will also be available to you on the Commission's Internet site. The address of this site is <http://www.sec.gov>.

LookSmart intends to send to its stockholders annual reports containing audited financial statements for each fiscal year and quarterly reports containing unaudited financial statements for the first three quarters of each fiscal year.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of LookSmart, Ltd. and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of LookSmart, Ltd. and Subsidiaries (the Company) at December 31, 1997 and 1998, and the results of their operations and their cash flows for the period from July 19, 1996 (inception) through December 31, 1996 and for the two years ended December 31, 1997 and 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*/s/ PricewaterhouseCoopers
LLP*

*San Francisco, California
May 7, 1999*

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LOOKSMART, LTD.

CONSOLIDATED BALANCE SHEETS

(In Thousands)

at December 31, Pro forma
 ----- June 30, June 30,
 1997 1998 1999 1999

(unaudited)

Assets

Current assets:

| | | | | |
|--|----------|-----------|-----------|-----------|
| Cash and cash equivalents..... | \$ 48 | \$ 3,501 | \$ 42,731 | \$ 44,568 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$0, \$127 and \$124 in 1997, 1998 and June 30, 1999..... | 41 | 2,895 | 4,319 | |
| Prepaid Distribution Costs..... | -- | 546 | 3,274 | |
| Prepaid expenses..... | 10 | 245 | 1,808 | |
| Other assets..... | 4 | 61 | 139 | |
| | ----- | ----- | ----- | ----- |
| Total current assets..... | 103 | 7,248 | 52,271 | 54,108 |
| Property and equipment, net..... | 707 | 1,979 | 6,174 | |
| Goodwill and intangible assets, net of accumulated amortization of \$615, \$1,220 and \$3,078 in 1997, 1998 and June 30, 1999..... | 1,435 | 4,744 | 28,716 | |
| Other assets..... | 30 | 119 | 2,199 | |
| | ----- | ----- | ----- | ----- |
| Total assets..... | \$ 2,275 | \$ 14,090 | \$ 89,360 | \$ 91,197 |
| | ===== | ===== | ===== | ===== |

Liabilities and Stockholders' Equity (Deficit)

Current liabilities:

| | | | | |
|--|--------|----------|----------|-------|
| Trade accounts payable..... | \$ 439 | \$ 1,325 | \$ 2,093 | |
| Other accrued liabilities..... | 572 | 2,873 | 5,922 | |
| Deferred revenue..... | -- | 9,234 | 17,206 | |
| Income taxes payable..... | 217 | 323 | 215 | |
| Capital lease obligation--current portion..... | -- | -- | 142 | |
| Note payable--current..... | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Total current liabilities..... | 1,228 | 13,755 | 25,578 | |
| Deferred revenue..... | -- | 96 | 3,481 | |
| Capital lease obligation..... | -- | -- | 322 | |
| Note payable to former stockholder | 1,500 | 1,500 | -- | |
| | ----- | ----- | ----- | ----- |
| Total liabilities..... | 2,728 | 15,351 | 29,381 | |

Commitments (Note 5).

Stockholders' equity (deficit):

| | | | | |
|---|----|---|---|----|
| Series A convertible preferred stock, \$.001 par value; 11,888 shares authorized and designated at December 31, 1998 and June 30, 1999, respectively (none pro forma); 6,353 and 7,853 issued and outstanding at December 31, 1998 and June 30, 1999, respectively (none pro forma); aggregate liquidation preference of \$2,263 and \$2,797 at December 31, 1998 and June 30, 1999 (none pro forma)..... | -- | 6 | 8 | -- |
| Series B convertible preferred stock, \$.001 par value; 14,328 shares authorized and designated, issued and outstanding at December 31, 1998 and June 30, 1999 (none pro forma); aggregate liquidation preference of \$2,263 (none pro forma)..... | | | | |
| Series C convertible preferred stock, \$.001 par value; 12,590 shares authorized and designated | | | | |

The accompanying notes are an integral part of these consolidated financial statements.

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LOOKSMART, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In Thousands)

| | Period from July 19, 1996 (Inception) through December 31, 1996 | Year Ended December 31, | | Six Months Ended June 30, | |
|---|--|----------------------------|------------|------------------------------|-----------|
| | | 1997 | 1998 | 1998 | 1999 |
| | | | | (unaudited) | |
| Revenues..... | \$ 3 | \$ 949 | \$ 8,785 | \$ 1,845 | \$ 18,058 |
| Cost of revenues..... | 90 | 430 | 1,586 | 495 | 2,754 |
| Gross profit (loss).. ----- | (87) | 519 | 7,199 | 1,350 | 15,304 |
| Operating expenses: | | | | | |
| Sales and marketing... | 1,115 | 3,668 | 10,848 | 3,085 | 16,189 |
| Product development... | 915 | 2,605 | 4,427 | 1,144 | 9,567 |
| General and administrative..... | 504 | 1,165 | 2,746 | 886 | 3,666 |
| Amortization of goodwill and intangibles..... | 205 | 410 | 605 | 205 | 1,858 |
| Amortization of unearned compensation..... | -- | -- | 133 | -- | 2,794 |
| Write off of in- process research and development..... | -- | -- | 338 | -- | -- |
| Total operating expenses..... ----- | 2,739 | 7,848 | 19,097 | 5,320 | 34,074 |
| Loss from operations..... (18,770) | (2,826) | (7,329) | (11,898) | (3,970) | |
| Non-operating income (expense) | | | | | |
| Other income (expense), net..... (8) | (19) | (3) | (139) | (124) | |
| Interest income (expense), net..... | 9 | (16) | (675) | (443) | 597 |
| Total non-operating income (expense).... ----- | (10) | (19) | (814) | (567) | 589 |
| Loss before income taxes..... (18,181) | (2,836) | (7,348) | (12,712) | (4,537) | |
| Income taxes..... ----- | 64 | 166 | 146 | 76 | 52 |
| Net loss..... (18,233) | (2,900) | (7,514) | (12,858) | (4,613) | |
| Other comprehensive income | | | | | |
| Change in foreign currency translation adjustment during the period..... | -- | (39) | (16) | (13) | 26 |
| Comprehensive loss... \$(18,207) | \$(2,900) | \$(7,553) | \$(12,874) | \$(4,626) | |
| Basic and diluted loss per share..... (0.86) | \$ (0.03) | \$ (0.08) | \$ (0.68) | \$ (0.25) | \$ |
| Weighted average shares outstanding..... | 115,447 | 91,589 | 18,790 | 18,326 | 21,265 |
| Pro forma basic and diluted net loss per share (unaudited)..... | | | \$ (0.31) | | \$ |

The accompanying notes are an integral part of these consolidated financial statements

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LOOKSMART, LTD.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In Thousands)

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-in Capital | Warrants | Unearned Compensation | Cumulative Translation Adjustment | Accumulated Deficit | Total Stockholders' Equity |
|---|-----------------------------|--------|--------------|--------|----------------------------|----------|-----------------------|-----------------------------------|---------------------|----------------------------|
| | Shares | Amount | Shares | Amount | | | | | | |
| Balance at July 19, 1996 (inception).... | -- | \$ -- | -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Common stock issued for acquisition of HomeBase Directories..... | -- | -- | 90,000 | 90 | 1,960 | -- | -- | -- | -- | 2,050 |
| Stockholder contribution.... | -- | -- | -- | -- | 2,940 | -- | -- | -- | -- | 2,940 |
| Translation adjustment..... | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Net loss..... | -- | -- | -- | -- | -- | -- | -- | -- | (2,900) | (2,900) |
| Balance at December 31, 1996..... | -- | -- | 90,000 | 90 | 4,900 | -- | -- | -- | (2,900) | 2,090 |
| Common stock issued for cash..... | -- | -- | 29,640 | 30 | 125 | -- | -- | -- | -- | 155 |
| Stockholder contribution.... | -- | -- | -- | -- | 4,855 | -- | -- | -- | -- | 4,855 |
| Common stock repurchased and exchanged for warrants..... | -- | -- | (101,640) | (102) | 17 | 85 | -- | -- | -- | -- |
| Translation adjustment..... | -- | -- | -- | -- | -- | -- | -- | (39) | -- | (39) |
| Net loss..... | -- | -- | -- | -- | -- | -- | -- | -- | (7,514) | (7,514) |
| Balance at December 31, 1997..... | -- | -- | 18,000 | 18 | 9,897 | 85 | -- | (39) | (10,414) | (453) |
| Common stock issued upon exercise of options..... | -- | -- | 402 | -- | 5 | -- | -- | -- | -- | 5 |
| Common stock issued for cash..... | -- | -- | 1,057 | 1 | 8 | -- | -- | -- | -- | 9 |
| Preferred stock Series A issued for conversion of notes, net of costs of \$425..... | 6,353 | 6 | -- | -- | 1,856 | -- | -- | -- | -- | 1,862 |
| Preferred stock Series B issued for cash and conversion of notes..... | 14,328 | 14 | -- | -- | 5,990 | -- | -- | -- | -- | 6,004 |
| Preferred stock Series 1 Junior issued as part of acquisition of BeSeen.com... | 6,000 | 6 | -- | -- | 3,494 | -- | -- | -- | -- | 3,500 |
| Issuance of warrants with preferred stock..... | -- | -- | -- | -- | (770) | 770 | -- | -- | -- | -- |
| Issuance of warrants with debt..... | -- | -- | -- | -- | -- | 379 | -- | -- | -- | 379 |
| Issuance of warrants for services..... | -- | -- | -- | -- | -- | 31 | -- | -- | -- | 31 |
| Issuance of warrants with financing agreement..... | -- | -- | -- | -- | -- | 143 | -- | -- | -- | 143 |
| Unearned compensation.... | -- | -- | -- | -- | 1,448 | -- | (1,448) | -- | -- | -- |
| Amortization of unearned compensation.... | -- | -- | -- | -- | -- | -- | 133 | -- | -- | 133 |
| Translation adjustment..... | -- | -- | -- | -- | -- | -- | -- | (16) | -- | (16) |
| Net loss..... | -- | -- | -- | -- | -- | -- | -- | -- | (12,858) | (12,858) |
| Balance at December 31, 1998..... | 26,681 | 26 | 19,459 | 19 | 21,928 | 1,408 | (1,315) | (55) | (23,272) | (1,261) |
| Preferred stock Series A issued for cash (unaudited).... | 1,500 | 2 | -- | -- | 531 | -- | -- | -- | -- | 533 |
| Preferred stock Series C issued for cash, net of costs of \$29 (unaudited).... | 12,084 | 12 | -- | -- | 60,332 | -- | -- | -- | -- | 60,344 |
| Issuance of warrants with preferred stock..... | -- | -- | -- | -- | (1,443) | 1,443 | -- | -- | -- | -- |
| Common stock issued as part of Guthy-Renker | | | | | | | | | | |

The accompanying notes are an integral part of these consolidated financial statements

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LOOKSMART, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

| | Period from July 19, 1996 (inception) through December 31, 1996 | | Year Ended December 31, ----- 1997 1998 ----- | | Six Months Ended June 30, ----- 1998 1999 ----- (unaudited) | |
|---|---|-----------|--|-----------|---|--|
| | Cash flows from operating activities: | | | | | |
| Net loss..... | \$(2,900) | \$(7,514) | \$(12,858) | \$(4,613) | | |
| \$(18,233) | | | | | | |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | | | |
| Depreciation and amortization..... | 259 | 679 | 956 | 346 | 2,589 | |
| Amortization of unearned compensation..... | -- | -- | 133 | -- | 2,794 | |
| Write-off of in-process research and development | -- | -- | 338 | -- | -- | |
| Warrants and other non-cash charges..... | -- | -- | 557 | 384 | -- | |
| Loss from sale of equipment..... | -- | 12 | 12 | -- | -- | |
| Changes in operating assets and liabilities: | | | | | | |
| Trade accounts receivable..... | (3) | (37) | (2,709) | (373) | | |
| (1,425) | | | | | | |
| Prepaid expenses..... | (15) | 5 | (781) | (1,225) | | |
| (4,291) | | | | | | |
| Other assets..... | (5) | (8) | (170) | (126) | | |
| (2,172) | | | | | | |
| Trade accounts payable.. | 185 | 254 | 834 | 141 | 768 | |
| Other accrued liabilities..... | 468 | 103 | 2,301 | 54 | 3,049 | |
| Deferred revenues..... | -- | -- | 9,330 | -- | 11,357 | |
| Income taxes payable.... | 64 | 133 | 130 | 63 | | |
| (92) | | | | | | |
| ----- | ----- | ----- | ----- | ----- | ----- | |
| Net cash used in operating activities.. | (1,947) | (6,373) | (1,927) | (5,349) | | |
| (5,656) | | | | | | |
| ----- | ----- | ----- | ----- | ----- | ----- | |
| Cash flows from investing activities: | | | | | | |
| Acquisition of BeSeen.com, Inc. | -- | -- | (907) | -- | -- | |
| Acquisition of Guthy-Renker Internet, LLC..... | -- | -- | -- | -- | | |
| (5,155) | | | | | | |
| Acquisition of ITW NewCorp, Inc..... | -- | -- | -- | -- | | |
| (5,049) | | | | | | |
| Purchases of property and equipment..... | (707) | (336) | (1,573) | (214) | | |
| (4,361) | | | | | | |
| ----- | ----- | ----- | ----- | ----- | ----- | |
| Net cash used in investing activities.. | (707) | (336) | (2,480) | (214) | | |
| (14,565) | | | | | | |
| Cash flows from financing activities: | | | | | | |
| Cash paid for issuance costs..... | -- | -- | (263) | (263) | -- | |
| Proceeds from note pay | | | | | | |
| to former stockholder.... | -- | 1,500 | -- | -- | -- | |
| Proceeds from stockholder contribution..... | 2,940 | 4,855 | -- | -- | -- | |

Supplemental disclosure of cash flow information (Note 10)

The accompanying notes are an integral part of these consolidated financial statements

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LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Nature of Business and Principles of Consolidation

LookSmart, Ltd. and its Australian subsidiary (LookSmart or the Company) were incorporated on July 19, 1996 under the name NetGet Ltd. to acquire the business and associated intellectual property of HomeBase Directories Pty Ltd. This acquisition was accounted for as a purchase. The purchase price of \$2.1 million was recorded as goodwill. LookSmart is a global media company offering consumers and advertisers comprehensive Internet navigation services. LookSmart is a category-based web directory provider which assembles high quality, highly specific content on the Internet. The LookSmart directory contains a collection of unique uniform resource locators (URLs) organized by categories and presented in an easy-to-navigate format.

LookSmart distributes its proprietary directory to a large number of Internet users through LookSmart owned web properties, including looksmart.com, BeSeen.com and others, as well as our strategic alliances, including Internet portals and Internet service providers. The Company's web properties are primarily targeted at a focused demographic of female household purchase decision-makers. In addition, LookSmart has a network of web site affiliates that may access its content and services.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Looksmart International Pty Ltd., an Australian company and BeSeen.com, Inc., a Delaware corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

Included in the Company's consolidated balance sheet at June 30, 1999 are net assets of the Company's Australian subsidiary totaling (\$207,000).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet, statements of operations and statements of cash flows at June 30, 1999 and for the six months ended June 30, 1998 and 1999, together with the related notes, are unaudited but include all adjustments (consisting of normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the financial position and the operating results and cash flows for the interim date and periods presented. Results for the six months ended June 30, 1999 are not necessarily indicative of results for the entire fiscal year or future periods.

Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and capital lease are carried at cost, which approximates fair value due to the relatively short maturity of those instruments.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Split

On December 17, 1997, the Company authorized and implemented a one thousand- for-one stock split. On March 23, 1999, the Company authorized and implemented a four-for-one stock split. On July 23, 1999, the Company authorized and implemented a three-for-two stock split. Accordingly, all share and per share amounts have been retroactively restated to reflect the effect of the stock splits.

Foreign Currencies

The balance sheets of the Company's Australian subsidiary are translated into U.S. dollars at year end rates of exchange. Revenues and expenses are translated at average rates for the year. The resulting translation adjustments are shown as a separate component of stockholders' equity.

Exchange gains and losses arising from transactions denominated in a foreign currency other than the functional currency of the entity involved are included in other expense. Such exchange gains (losses) amounted to (\$19,000), \$9,000 and (\$119,000) for the period from July 19, 1996 (inception) through December 31, 1996 and for the years ended December 31, 1997 and 1998, respectively.

Derivatives

To date, the Company has not entered into foreign currency forward exchange contracts or any other derivative instruments.

Revenue Recognition

The Company generates revenues by providing access to its proprietary database through a variety of channels. Revenues are generated from short term and long term contracts.

Short term contract revenues are derived principally from the sale of banner advertisements displayed on the Company's websites. Advertising revenues are recognized ratably as impressions are delivered over the period in which the advertisement is displayed, provided that no significant Company obligations remain at the end of a period and collection of the resulting receivable is probable. Company obligations typically include guarantees of minimum number of "impressions," or times that an advertisement appears in pages viewed by users of the Company's online properties. To the extent minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues until the remaining guaranteed impression levels are achieved.

Revenues associated with long term fixed fee contracts are recognized as delivery occurs as specified under the contracts, all performance obligations have been satisfied and no refund obligations exist. Payments received in advance of delivery are recorded as deferred revenues.

Revenues also include barter transactions which are the exchange of advertising space on the Company's web sites for advertising space on other web sites. These transactions are recorded at the fair value of the advertisements provided or received, whichever is more readily determinable in the given circumstance. For the period from July 19, 1996 (inception) through December 31, 1996, for the years ended December 31, 1997 and 1998, and for the six-month period ended June 30, 1999 the Company recognized \$0, \$94,000, \$478,000 and \$198,000 respectively in barter transactions.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 |
| years | |
| Furniture and fixtures..... | 5 |
| years | |
| Software..... | 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 are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in operations.

Maintenance and repairs are charged to expense as incurred. Expenditures which substantially increase an asset's useful life are capitalized.

Asset Impairment

Statement of Financial Accounting Standards No. 121 (SFAS No. 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS No. 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. SFAS 121 has not had an impact on the consolidated financial statements of the Company.

Advertising Costs

Advertising costs are charged to sales and marketing expenses as incurred and amounted to \$430,000; \$938,000 and \$256,000 for the period from July 19, 1996 (inception) through December 31, 1996 and for the years ended December 31, 1997 and 1998, respectively.

Product Development Costs

Costs incurred in the classification and organization of listings within the unique URL database and the development of new products and enhancements to existing products are charged to expense as incurred. SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based upon the Company's product development process, technological feasibility is established upon completion of a working model. No costs have been incurred by the Company between completion of the working model and the point at which the product is ready for general release.

Net Loss Per Share

SFAS No. 128 "Earnings per Share," establishes standards for computing and presenting earnings per share. Basic earnings per share is calculated using the average shares of common stock outstanding. Diluted earnings per share is calculated using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using either the as if converted method for convertible preferred stock or the treasury stock method for options and

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

warrants. Pursuant to SEC Staff Accounting Bulletin No. 98, common stock and convertible preferred stock issued for nominal consideration, prior to the anticipated effective date of an initial public offering, are included in the calculation of basic and diluted net loss per share as if such stock were outstanding for all periods presented. To date, the Company has not had any issuances for nominal consideration.

Pro Forma Net Loss Per Share (unaudited)

Pro forma net loss per share for the year ended December 31, 1998 and the six months ended June 30, 1999, is computed using the weighted average number of common shares outstanding, including the pro forma effects of the automatic conversion of the Company's Series A, B, C, Series 1 Junior preferred stock and certain warrants into shares of the Company's common stock effective upon the closing of the Company's initial public offering as if such conversion occurred on January 1, 1998, or at the date of issuance, if later. Pro forma common equivalent shares, comprised of incremental common shares issuable upon the exercise of stock options and warrants are not included in pro forma diluted net loss per share because they would be anti-dilutive.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with Statement of Financial Accounting Standards No. 109 (SFAS No. 109). Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases 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.

Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board Opinion No. 25, (APB No. 25) "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of SFAS No. 123 "Accounting for Stock-based Compensation." Under APB No. 25, compensation cost is recognized based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

Goodwill and Intangible Assets

Goodwill and intangible assets consist of the excess of purchase price paid over identified intangible and tangible net assets of acquired companies. Goodwill and intangible assets are amortized using the straight-line method over one to five years, the period of expected benefit. Valuation of goodwill and intangible assets is based on forecasted discounted cash flows and is reassessed periodically as a result of changes in management's estimates of future performance given consideration to existing and anticipated competitive and economic conditions. Cash flow forecasts are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. The amount of an impairment loss is determined as the amount by which the carrying amount of an intangible asset exceeds the fair value of the asset based on the valuation.

Concentration of Credit Risk and Business Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of temporary cash investments (including money market accounts) and accounts

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

receivable. The Company places its temporary cash investments in the U.S. in one major financial institution. Such deposits may at times exceed federally insured limits. The Company performs ongoing credit evaluations and generally requires no collateral from its customers. The Company maintains a reserve for doubtful accounts receivable based upon expected collectibility of accounts receivable.

As of December 31, 1997, one customer accounted for 100% of total accounts receivable. As of December 31, 1998, one customer accounted for 13% of total accounts receivable. No other individual customers accounted for more than 10% of the total balance.

Three customers individually accounted for approximately 36%, 20% and 0% of total revenues for the year ended December 31, 1997. The same three customers individually accounted for approximately 22%, 0% and 32% of total revenues for the year ended December 31, 1998.

The Internet navigation market is highly competitive. The success of the Company is dependent upon its ability to raise capital, sell advertising on its website, generate traffic and attract and retain key personnel. Additionally, the Company's success is dependent upon the continued growth in use of the Internet.

Comprehensive Income

The Company has adopted the accounting treatment prescribed by SFAS No. 130, "Comprehensive Income." Unless otherwise noted, the components of the Company's "Other comprehensive income (loss)" and "Comprehensive income" have no tax effect as the Company makes no provision for U.S. income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations.

Segment Information

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" in the fiscal year ended December 31, 1998. SFAS 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. In accordance with the provisions of SFAS 131, the Company has determined that it does not have separately reportable operating segments.

Pro forma Balance Sheet (Unaudited)

The accompanying unaudited pro forma balance sheet at June 30, 1999 reflects the conversion of the Series A, B, C, Series 1 Junior preferred stock and certain warrants into common stock as of June 30, 1999. The conversion of this preferred stock is automatic upon completion of an initial public offering that results in total gross proceeds to the Company of at least \$25 million.

Recently Issued Accounting Pronouncements

In 1998, the Financial Accounting Standards Board issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits", and No. 133, "Accounting for Derivative Instruments and Hedging Activities", which are effective for the year ending December 31, 1999. The Company does not believe that the adoption of these pronouncements will have a material effect on the consolidated financial statements.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), which provides guidance for determining whether computer software is internal-use software and for accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold. SOP 98-1, which is effective for the year ended December 31, 1999, also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The Company does not expect the adoption of SOP 98-1 to have a material effect on the consolidated financial statements.

On April 3, 1998, the Accounting Standards Executive Committee of the AICPA issued SOP No. 98-5, "Reporting on the Costs of Start-Up Activities," which provides guidance on the financial reporting of start-up costs. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. As the Company has not capitalized such costs, the adoption of SOP 98-5 does not have an impact on the consolidated financial statements of the Company.

2. Property and Equipment:

Property and equipment consisted of the following (in thousands):

| | December 31, | | June 30, |
|---|--------------|---------|----------|
| | ----- | | |
| | 1997 | 1998 | 1999 |
| | ----- | | |
| (unaudited) | | | |
| Computer equipment..... | \$ 989 | \$2,240 | \$5,993 |
| Furniture and fixtures.... | 41 | 207 | 675 |
| Software..... | -- | 130 | 608 |
| Leasehold improvements.... | -- | 77 | 304 |
| | ----- | ----- | ----- |
| | 1,030 | 2,654 | 7,580 |
| Less accumulated depreciation and amortization..... | 323 | 675 | 1,406 |
| | ----- | ----- | ----- |
| Property and equipment, net..... | \$ 707 | \$1,979 | \$6,174 |
| | ===== | ===== | ===== |

Cost and accumulated depreciation related to assets under capital lease obligations at June 30, 1999 were \$523,000 and \$58,000, respectively. No assets were subject to capital lease prior to 1999.

Depreciation was \$54,000, \$269,000 and \$351,000 for the period from July 19, 1996 (inception) through December 31, 1996, and for the two years ended December 31, 1997 and 1998.

3. Notes Payable:

In September 1997, the Company issued a note payable for \$1.5 million to a former stockholder. The principal is due and payable on the earlier of September 1, 2000 or on the closing of an initial public offering. Interest is charged at the rate of 10% per annum and is payable quarterly starting September 30, 1998. The Company repaid the note in June 1999.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

From January to April 1998, the Company issued convertible promissory notes in the principal amount of \$2.9 million to investors of the Company. All notes bore interest at 10% per annum and included an issuance of 2,510,412 Series A preferred stock warrants (Note 6). In May 1998, in accordance with the terms of these notes, outstanding principal of \$2.1 million was converted into Series A preferred stock and outstanding principal and interest of \$505,000 was converted into Series B preferred stock. Outstanding principal of \$250,000 was repaid to a note holder.

In September 1998, the Company entered into a financing agreement with Microsoft to borrow up to \$11.9 million at an interest rate of 8% per annum. Principal and accrued interest were due upon the earlier of September 1999, or the closing of any acquisition of the Company by a third party of a majority of its capital stock or substantially all of its assets. Borrowings were convertible, at the option of the Company, to any series of equity issued to third parties pursuant to any equity financing that in the aggregate exceeded \$5 million. Warrants to purchase 480,000 shares of common stock at an exercise price of \$0.6275 per share were issued in conjunction with the financing agreement. These warrants expire in September 2003. The fair value of these warrants was recorded as interest expense over the term the financing agreement was effective. In December 1998, pursuant to a licensing agreement with Microsoft, this note was applied as an offset against the consideration due under that license agreement and was recorded as deferred revenue of \$11.4 million.

4. Income Taxes:

The provision for income taxes of \$64,000, \$166,000 and \$146,000 for the period from July 19, 1996 (inception) through December 31, 1996 and for the years ended December 31, 1997 and 1998, applies to the Australian subsidiary.

The primary components of the net deferred tax asset are as follows (in thousands):

| | December 31, | |
|----------------------------------|--------------|----------|
| | 1997 | 1998 |
| | ----- | ----- |
| Deferred tax assets: | | |
| Net operating losses..... | \$ 3,700 | \$ 4,699 |
| Deferred revenue..... | -- | 3,637 |
| Depreciation & amortization..... | 446 | 391 |
| Accruals and reserves..... | 52 | 110 |
| | ----- | ----- |
| Total deferred tax assets..... | 4,198 | 8,837 |
| Deferred tax liability..... | -- | |
| (3) | | |
| | ----- | ----- |
| Net deferred tax asset..... | 4,198 | 8,834 |
| Valuation allowance..... | (4,177) | |
| (8,834) | | |
| | ----- | ----- |
| Deferred tax asset..... | \$ 21 | \$ -- |
| | ===== | ===== |

Due to the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has placed a valuation allowance against its otherwise recognizable net deferred tax asset.

As of December 31, 1998, the Company has net operating loss (NOL) carryforwards of approximately \$12.1 million and \$10.2 million for federal and state tax purposes, respectively. Such carryforwards expire from 2004 to 2011.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the provisions of Section 382 of the Internal Revenue Code, utilization of the NOLs are subject to annual limitations through 2011 due to a greater than 50% change in the ownership of the Company which occurred during fiscal years 1997 and 1998.

5. Commitments:

The Company leases office and storage space for technical equipment under non-cancelable operating leases which expire at various dates through the year 2003.

Future minimum lease payments under all operating leases at December 31, 1998 are as follows (in thousands):

| Year ending December 31: | |
|-----------------------------------|---------|
| ----- | |
| 1999..... | \$1,264 |
| 2000..... | 932 |
| 2001..... | 660 |
| 2002..... | 287 |
| 2003..... | 119 |
| Thereafter..... | -- |
| ----- | |
| Total minimum lease payments..... | \$3,262 |
| ===== | |

In May 1999, the Company entered into a ten year operating lease agreement for office space. The lease commences in October 1999 and has average monthly lease payments over the lease term of \$364,000 per month.

Rent expense under all operating leases for the period from July 19, 1996 (inception) through December 31, 1996 and for the years ended December 31, 1997 and 1998, amounted to \$71,000, \$215,000 and \$508,000 respectively.

In February 1999, the Company obtained a financing lease with a total commitment of \$2.0 million which is accounted for as a capital lease. The Company has pledged as collateral certain computer equipment. The total credit extended to the Company under the agreement was \$464,000 as of June 30, 1999. Future minimum lease payments under this capital lease at June 30, 1999 are as follows (in thousands):

| | |
|--|--|
| Six months ended December 31, 1999..... | |
| \$100 | |
| Year ending December 31, | |
| 2000..... | |
| 201 | |
| 2001..... | |
| 201 | |
| 2002..... | |
| 69 | |
| Thereafter..... | |
| -- | |
| ---- | |
| Total minimum lease payments..... | |
| 571 | |
| Less: Interest..... | |
| 107 | |
| ---- | |
| Present value of net minimum lease payments..... | |
| \$464 | |
| ==== | |
| Capital lease obligation--current portion..... | |
| \$142 | |
| ==== | |
| Capital lease obligation--long-term..... | |
| \$322 | |
| ==== | |

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In June 1999, the Company entered into five agreements with three PBS- related entities under which the Company agreed to sponsor five programs on PBS. The terms of four agreements are for five years, with either party having the right to terminate the agreements after three years. The term of the fifth agreement is for three years and gives the Company a right of first refusal for the fourth and fifth years. The Company is committed to pay a total of \$19.3 million during the contract period to the PBS-related entities.

6. Stockholders' Equity:

Convertible Preferred Stock

The Company is authorized to issue 44,805,698 shares of \$0.001 par value preferred stock. The following is outstanding (in thousands):

| | | Issued and Outstanding | | |
|----------------------------------|------------|------------------------|--------|----------|
| | | December 31, | | June 30, |
| | Designated | 1997 | 1998 | 1999 |
| (unaudited) | | | | |
| Series A..... | 11,888 | -- | 6,353 | 7,853 |
| Series B..... | 14,328 | -- | 14,328 | 14,328 |
| Series C..... | 12,590 | -- | -- | 12,084 |
| Series 1 Junior..... | 6,000 | -- | 6,000 | 6,000 |
| | | --- | ----- | ----- |
| Total convertible preferred..... | | -- | 26,681 | 40,265 |
| | | === | ===== | ===== |

The rights, preferences and privileges of the preferred stockholders are as follows:

Dividends

The Company's Certificate of Incorporation prohibits the Company from declaring or paying dividends on the Junior preferred stock unless dividends have been paid on the Series A, B and C preferred stock. Dividends are noncumulative and the dividend rate is at the discretion of the Board of Directors of the Company. The Certificate also prohibits declaring or paying dividends on the common stock unless dividends are paid on the senior and Series 1 Junior preferred stock. As of June 30, 1999, no dividends have been declared or paid on any class of the Company's capital stock.

Liquidation

In the event of any liquidation, dissolution, or winding up of the Company, the holders of Series A, Series B and Series C preferred stock (senior preferred stockholders) retain liquidation preference over Series 1 Junior preferred stockholders and common stockholders equal to the sum of the original purchase price of \$0.35625, \$0.41911 and \$5.00 per share, respectively, plus any declared but unpaid dividends. After payment to the Senior preferred stockholders, the holders of Series 1 Junior preferred stock retain liquidation preference over common stockholders equal to the sum of \$0.33333 per share of Series 1 Junior preferred plus any declared but unpaid dividends. After payment has been made to holders of preferred stock, all remaining assets shall be distributed pro rata among all senior preferred and common stockholders until the holders of Series A, Series B, and Series C preferred stock have received \$0.89061, \$1.04778 and \$7.50, respectively, as adjusted for stock splits, stock dividends and recapitalizations.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Conversion

Preferred stock is convertible, at the option of the holder, into shares of common stock at an initial conversion price of \$0.35625 per share for Series A preferred stock, \$0.41911 per share for Series B preferred stock, \$5.00 per share for Series C preferred stock and \$0.58333 per share for Series 1 Junior preferred stock, as adjusted for stock splits, combinations, or recapitalization. Convertible preferred shares are convertible into common stock at a one-to-one ratio, and will automatically be converted upon the effectiveness of an initial public offering. The Company has reserved 44,805,698 shares of common stock for preferred stock conversions.

Voting Rights

Each holder of preferred stock is entitled to the number of votes equal to the number of shares of common stock into which the shares are convertible.

Common Stock

In September 1997, the Company reorganized its capital structure by entering into a transaction with a major stockholder in which it repurchased 101,640,000 shares of its common stock (approximately 85% of the outstanding shares), in exchange for a warrant to purchase 9,000,000 shares of common stock at an exercise price of \$0.00017 per share. In conjunction with this exchange, the Company issued a note payable for \$1.5 million to the former stockholder. See discussion in Note 3.

Warrants

During 1997, in conjunction with the reorganization of its capital structure, the Company issued a warrant to purchase 9,000,000 shares of common stock at an exercise price of \$0.00017 per share to a former stockholder. The warrant is exercisable until the earlier of (1) September 30, 2007, (2) the closing of an initial public offering of the Company's stock, (3) a reorganization, merger or consolidation, or (4) the sale of all of the Company's assets. The fair value of this warrant was recorded as treasury stock.

During 1998, the Company also issued warrants to purchase 2,510,412 shares of Series A preferred stock at \$0.35627 per share in connection with the issuance of convertible notes payable (Note 3). During 1998, 1,500,000 of these warrants were exercised. The remaining warrants are immediately exercisable and expire in March 2005. The fair value of the warrants has been recorded as interest expense over the period the notes were outstanding.

During 1998, in connection with the issuance of Series A convertible preferred stock the Company issued warrants to purchase 3,024,924 shares of Series A preferred stock at \$0.41913 per share as a finder's fee to certain preferred stockholders. The warrants are immediately exercisable and expire at the earlier of May 2005 or immediately prior to the closing of an initial public offering. The fair value of the warrants has been recorded as stock issuance cost.

During 1998, the Company issued a warrant to purchase up to 1,500,000 shares of common stock at an exercise price of \$2.50 per share in connection with a strategic alliance agreement. This warrant is immediately exercisable and expires in May 2003. Because the exercise price exceeded the deemed fair value of the underlying stock at the date of grant, no positive fair value was attributed to this warrant.

During 1998, the Company issued a warrant to purchase up to 480,000 shares of common stock at an exercise price of \$0.41833 per share in connection with a financing agreement. This warrant is immediately exercisable and expires in September 2003. See Note 3.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 1999, the Company issued a warrant to purchase 439,999 shares of Series C preferred stock at \$5.00 per share as compensation for services provided in connection with the Series C preferred financing. The warrants are immediately exercisable and expire in March 2002. The fair value of the warrants has been recorded as issuance costs.

During 1999, the Company issued warrants to purchase 420,000 shares of common stock at \$1.25 per shares in connection with an asset purchase. These warrants are immediately exercisable and expire in June 2004. The fair value of the warrants, which was determined using the Black-Scholes model, was recorded as part of the purchase price.

In June 1999, the Company granted warrants to purchase 120,000 shares of common stock at \$1.25 per share to two individuals in connection with their employment. Of these warrants, 30,000 vest immediately and the remaining 90,000 vest at a rate of 3,750 shares per month provided the individuals continue to be employees of the Company. These warrants expire in June 2004 and are accounted for under APB 25 and the Company recorded deferred compensation of \$1,218,000 for the difference between exercise price and the fair market value of the underlying common stock at the date of grant.

As of June 30, 1999, 15,909,085 of the warrants outstanding are exercisable. The following table sets forth warrants outstanding as of June 30, 1999 (in thousands, except for per share data):

| Date of grant | Type | Number of warrants | Exercise price | Expires |
|----------------|--------------------|--------------------|----------------|----------------|
| September 1997 | Common | 9,000 | \$0.00017 | September 2007 |
| March 1998 | Series A preferred | 1,010 | \$0.35627 | March 2005 |
| May 1998 | Series A preferred | 3,025 | \$0.41913 | May 2005 |
| May 1998 | Common | 1,500 | \$ 2.50 | May 2003 |
| September 1998 | Common | 480 | \$0.41833 | September 2003 |
| March 1999 | Series C preferred | 440 | \$ 5.00 | March 2002 |
| June 1999 | Common | 420 | \$ 1.25 | June 2004 |
| June 1999 | Common | 120 | \$ 1.25 | June 2004 |

Stock Option Plan

In December 1997, in connection with a stock split, the Company canceled the 1996 Stock Option Plan and all options granted thereunder. In December 1997, the Company approved the 1998 Stock Option Plan (the Plan). The Company has reserved 9,750,000 and 20,850,000 shares of common stock for issuance under the Plan at December 31, 1998 and June 30, 1999, respectively. Options generally become exercisable ratably over up to four years after the grant date and have a term of ten years. Under the Plan, the Company may grant incentive stock options, nonstatutory stock options and stock purchase rights to employees, directors and consultants.

As of June 30, 1999, 11,861,003 options were outstanding and 6,979,897 shares remained available for grant under the Company's stock option plan. At June 30, 1999, 854,500 options were exercisable at exercise prices ranging from \$0.00953 to \$10.66667, with an average exercise price of \$0.02813.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock option activity under the plans during the periods indicated is as follows (in thousands, except for per share data):

| Weighted Exercise | Outstanding | Average Price Per Share |
|-----------------------------------|--------------------------------|----------------------------------|
| | Options Number of Shares | |
| | ----- | |
| Balance at December 31, 1996..... | -- | |
| Granted..... | 13,401 | \$0.0047 |
| Canceled..... | (8,964) | \$0.0002 |
| | ----- | |
| Balance at December 31, 1997..... | 4,437 | \$0.0095 |
| Granted..... | 5,424 | \$0.1609 |
| Canceled..... | (618) | \$0.0246 |
| Exercised..... | (402) | \$0.0095 |
| | ----- | |
| Balance at December 31, 1998..... | 8,841 | \$0.1014 |
| Granted (unaudited)..... | 4,950 | \$2.6731 |
| Canceled (unaudited)..... | (323) | \$0.5123 |
| Exercised (unaudited)..... | (1,607) | \$0.0246 |
| | ----- | |
| Balance at June 30, 1999..... | 11,861 | \$1.1695 |
| | ===== | |

The Company accounts for employee stock options under APB No. 25 and related Interpretations for grants to employees under its stock option plans. For the years ended December 31, 1997 and 1998, the Company recorded deferred compensation of \$0 and \$1,448,000, respectively, for stock option grants where the deemed fair value of the option at grant date was in excess of the exercise price.

The following table summarizes information about stock options outstanding at December 31, 1998 (in thousands, except for per share data):

| Weighted Exercise Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--|---------------------|-----------------------------|--|------------------------|------------------|
| | Shares | Weighted Average Life | Weighted Average Price Exercise | Shares | Average Price |
| | ----- | ----- | ----- | ----- | |
| \$0.00953 to \$0.00953..... | 3,585 | 8.97 | \$.00953 | 1,741 | \$.00953 |
| \$0.08333 to \$0.08333..... | 567 | 9.63 | \$.08333 | -- | -- |
| \$0.11667 to \$0.11667..... | 1,200 | 9.67 | \$.11667 | -- | -- |
| \$0.16667 to \$0.16667..... | 2,358 | 9.85 | \$.16667 | -- | -- |
| \$0.25000 to \$0.25000..... | 1,131 | 9.93 | \$.25000 | 30 | \$.25000 |
| | ----- | | | ----- | |
| | 8,841 | 9.46 | \$.10140 | 1,771 | \$.01360 |
| | ===== | | | ===== | |

The following information concerning the Company's stock options plan is provided in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation".

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted- average assumptions:

| | 1997 | 1998 |
|------------------------------|-------|------|
| | ---- | ---- |
| Expected volatility..... | 0% | |
| 0% | | |
| Risk-free interest rate..... | 5.72% | |
| 5.18% | | |
| Expected lives (years)..... | 5 | 5 |
| Expected dividend yield..... | -- | -- |

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average fair value for options granted was \$.00273 and \$.30013 for 1997 and 1998, respectively. The fair value of options granted to independent contractors has been determined using the Black-Scholes model with the same assumptions as options granted to employees and with a volatility of 104%. The fair value is recorded as consulting expense as services are provided.

The pro forma net loss for the Company for 1997 and 1998 is as follows (in thousands, except per share data):

| | 1997 | 1998 |
|--------------------------------------|-----------|-------|
| | ----- | ----- |
| Net Loss | | |
| As reported..... | \$(7,514) | |
| \$(12,858) | | |
| Pro forma..... | \$(7,515) | |
| \$(12,933) | | |
| Basic and Diluted net loss per share | | |
| As reported..... | \$(0.08) | |
| \$(0.68) | | |
| Pro forma..... | \$(0.08) | |
| \$(0.69) | | |

1999 Employee Stock Purchase Plan

In June 1999, the Board of Directors adopted the 1999 Employee Stock Purchase Plan, which was approved by the stockholders in July 1999. A total of 750,000 shares of common stock have been reserved for issuance under the 1999 Purchase Plan, plus annual increases on January 1 of each year, beginning in 2000, equal to the lesser of 1 million shares; 3% of the outstanding shares on January 1; or an amount determined by the Board of Directors. As of June 30, 1999, no shares have been issued under the 1999 Purchase Plan.

7. Microsoft Contract:

The Company has entered into a long-term, fixed-fee contract with Microsoft Corporation. Under the terms of this contract, the Company has licensed its proprietary database and is obligated to add a certain number of incremental URLs ratably over the contract term. Microsoft may direct the specific topics or specific websites of approximately half of the required URLs. The contract provides for a refund of a portion of the fee in the event that the Company does not deliver the specified number of URLs.

Under the contract, the Company has received an upfront, nonrefundable fee of \$30 million and will receive quarterly payments throughout the contract term. Payments received in advance of performance under the contract are recorded as deferred revenues. The Company recognizes revenues under this contract ratably as access to URLs is delivered and no further obligation for performance or refund exists.

LOOKSMART, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Net Loss Per Share:

In accordance with the requirements of SFAS No. 128, a reconciliation of the numerator and denominator of basic and diluted loss per share is provided as follows (in thousands, except share amounts):

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|--|-------------------------|-----------|------------|------------------------------|--------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| | ----- | | | ----- | |
| | | | | (unaudited) | |
| Numerator-Basic and diluted: | | | | | |
| Net loss..... | \$ (2,900) | \$(7,514) | \$(12,858) | \$(4,613) | |
| \$(18,233) | | | | | |
| Denominator-Basic and diluted: | | | | | |
| Weighted average common shares outstanding..... | 115,947 | 91,589 | 18,790 | 18,326 | 21,265 |
| Basic and diluted loss per share..... | \$ (0.03) | \$ (0.08) | \$ (0.68) | \$ (0.25) | \$ |
| (0.86) | | | | | |

In September, 1997, the Company reorganized its capital structure by entering into a transaction with a major stockholder in which it repurchased 101,640,000 shares of its common stock. Options and warrants to purchase common and preferred shares are not included in the diluted loss per share calculations as their effect is antidilutive for all periods presented. These dilutive securities included weighted average common stock equivalents relating to preferred stock, stock options and warrants to purchase common and preferred shares (as calculated using the treasury method) and are as follows (in thousands):

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|----------------------------|----------------------------|-------|--------|---------------------------------|-------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| | ----- | ----- | ----- | ----- | ----- |
| | | | | (unaudited) | |
| Preferred stock..... | -- | -- | 12,703 | -- | |
| 34,230 | | | | | |
| Options..... | -- | 5,358 | 3,933 | -- | |
| 9,214 | | | | | |
| Warrants..... | -- | 2,287 | 9,484 | 9,398 | |
| 15,347 | | | | | |
| ----- | ----- | ----- | ----- | ----- | |
| Total dilutive shares..... | -- | 7,645 | 26,120 | 9,398 | |
| 58,791 | | | | | |
| ===== | === | ===== | ===== | ===== | |

9. Acquisitions:

On October 23, 1998, the Company acquired all of the outstanding stock of BeSeen.com, Inc. (BeSeen) a privately held company, for \$907,000 cash, including acquisition costs of \$157,000, and the issuance of 6,000,000 shares of Series 1 Junior preferred stock. At the acquisition date,

the Series 1 Junior preferred stock was valued at \$0.583 per share. This transaction was accounted for as a purchase. The results of operations of BeSeen are included in the consolidated results of operations for periods subsequent to the acquisition date. The total purchase price was \$4.4 million, of which \$3.9 million was allocated to goodwill and intangible assets.

On April 9, 1999, the Company acquired certain assets and liabilities of Guthy-Renker Internet, LLC in exchange for \$5 million cash and 2,550,000 shares of the Company's common stock. At the date of acquisition, the common shares were valued at \$4.50 each. The total purchase price of this transaction was \$16.6 million including direct costs and expenses related to the acquisition, of which \$16.5 million were allocated to goodwill and intangible assets.

On June 9, 1999, the Company acquired substantially all of the assets and liabilities of ITW NewCorp, Inc. in exchange for \$5 million cash and warrants to purchase 420,000 shares of the

Company's common stock at \$1.25. At the date of acquisition, the common shares were valued at \$11.40 each. The total purchase price of this transaction was \$9.3 million, including direct costs and expenses related to the acquisition, all of which were recorded as goodwill.

10. Supplemental Disclosure of Cash Flow Information (in thousands):

| | Period from July 19, 1996 (Inception) through December 31, | Year Ended December 31, | | Six Months Ended June 30, | |
|--|--|----------------------------|-----------|---------------------------------|------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| (unaudited) | | | | | |
| Supplemental disclosure of cash flow information: | | | | | |
| Cash paid during the year for: | | | | | |
| Interest..... | -- | \$24 | \$ 274 | \$66 | \$ |
| 96 | ===== | === | ===== | === | |
| Income taxes..... | -- | -- | -- | -- | \$ |
| 174 | ===== | === | ===== | === | |
| Noncash investing and financing activities: | | | | | |
| Equipment under capital lease..... | -- | -- | -- | -- | \$ |
| 523 | ===== | === | ===== | === | |
| Purchase of Homebase Directories for common stock..... | \$2,050 | -- | -- | -- | |
| -- | ===== | === | ===== | === | |
| Conversion of notes payable to Series A preferred stock..... | -- | -- | \$ 2,125 | -- | |
| -- | ===== | === | ===== | === | |
| Conversion of notes payable and accrued interest to Series B preferred stock..... | -- | -- | \$ 505 | -- | |
| -- | ===== | === | ===== | === | |
| Series A preferred stock given for issuance costs of Series A..... | -- | -- | \$ 163 | -- | |
| -- | ===== | === | ===== | === | |
| Issuance of Series 1 Junior preferred stock for the acquisition of BeSeen.com..... | -- | -- | \$ 3,500 | -- | |
| -- | ===== | === | ===== | === | |
| Note payable converted to deferred revenue under license agreement... | -- | -- | \$ 11,385 | -- | |
| -- | ===== | === | ===== | === | |
| Issuance of common stock for the acquisition of Guthy-Renker..... | -- | -- | -- | -- | \$ |
| 11,475 | ===== | === | ===== | === | |
| Issuance of common warrants for the acquisition of ITW NewCorp., Inc. | -- | -- | -- | -- | \$ |
| 4,263 | ===== | === | ===== | === | |

11. Related Party Transactions:

The Company receives licensing revenues from Cox Interactive Media, Inc., a stockholder of the Company, for the design and licensing of LookSmart database content used on Cox Interactive websites. Revenues from Cox Interactive Media, Inc. amounted to \$0 and \$538,000 for the years ended December 31, 1997 and 1998, respectively.

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UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The unaudited pro forma combined financial information for Looksmart, Ltd. set forth below gives effect to the merger between the LookSmart, Ltd. and BeSeen.com, Inc., (Merger) as well as LookSmart's asset purchase transactions with Guthy-Renker Internet, LLC and ITW NewCorp, Inc. (Purchase Transactions). The historical financial information set forth below has been derived from, and is qualified by reference to, the consolidated financial statements of LookSmart, and the financial statements of BeSeen.com, Inc. Guthy-Renker Internet, LLC and ITW NewCorp, Inc., and should be read in conjunction with those financial statements, the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

On October 23, 1998, LookSmart acquired all of the outstanding common stock of BeSeen.com, Inc. in exchange for 6,000,000 shares of LookSmart Series 1 Junior preferred stock. This transaction was accounted for using the purchase method.

On April 9, 1999, LookSmart acquired certain assets from Guthy-Renker Internet, LLC in exchange for \$5 million cash and 2,550,000 shares of LookSmart common stock.

On June 9, 1999, LookSmart acquired substantially all of the assets of ITW NewCorp, Inc., in exchange for \$5 million and warrants to purchase 420,000 shares of LookSmart common stock.

The unaudited pro forma combined statement of operations data for the year ended December 31, 1998, set forth below, give effect to the Merger and the Purchase Transactions as if they occurred on January 1, 1998. The unaudited pro forma combined statement of operations data for the six months ended June 30, 1999, set forth below, give effect to the Purchase Transactions as if they occurred on January 1, 1999.

The unaudited pro forma combined financial information set forth below does not purport to represent what the consolidated results of operations or financial condition of LookSmart, Ltd would have been if the Merger or the Purchase Transactions had in fact occurred on such dates or to the future consolidated results of operations or financial condition of LookSmart, Ltd.

LOOKSMART, LTD. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS

For the year ended December 31, 1998

| | Looksmart, Ltd. for the Year Ended December 31, 1998 | BeSeen.com, Inc. for the Period January 1, 1998 through October 23, 1998 | Guthy-Renker Internet, LLC for the 53 Weeks Ended January 3, 1999 | ITW NewCorp, Inc. for the Year Ended December 31, 1998 | Combined | Pro Forma Adjustments | Total |
|--|--|--|--|--|------------|--------------------------|------------|
| | (in thousands, except per share amounts) | | | | | | |
| Net revenues..... | \$ 8,785 | \$298 | \$10,670 | \$389 | \$ 20,142 | \$ -- | \$ 20,142 |
| Cost of revenues..... | 1,586 | 83 | 6,459 | 119 | 8,247 | -- | 8,247 |
| Gross profit (loss).... | 7,199 | 215 | 4,211 | 270 | 11,895 | -- | 11,895 |
| Operating expenses: | | | | | | | |
| Sales and marketing... | 10,848 | 23 | 3,214 | 24 | 14,109 | -- | 14,109 |
| Product development... | 4,427 | 31 | | 59 | 4,517 | -- | 4,517 |
| General and administrative..... | 2,746 | 187 | 1,532 | 70 | 4,535 | -- | 4,535 |
| Write-off of in- process research and development..... | 338 | -- | -- | -- | 338 | -- | 338 |
| Amortization of goodwill, intangibles and unearned compensation..... | 738 | -- | -- | -- | 738 | 6,047 (1) | 6,785 |
| Total operating expenses..... | 19,097 | 241 | 4,746 | 153 | 24,237 | 6,047 | 30,284 |
| Income (loss) from operations..... | (11,898) | (26) | (535) | 117 | (12,342) | (6,047) | (18,389) |
| Other income/ (expense), net..... | (139) | -- | -- | -- | (139) | -- | (139) |
| Interest income/ (expense), net..... | (675) | (1) | -- | (1) | (677) | -- | (677) |
| Income taxes..... | (146) | -- | (5) | -- | (151) | 5 (2) | (146) |
| Net income (loss)..... | (12,858) | (27) | (540) | 116 | (13,309) | (6,042) (3) | (19,351) |
| Change in foreign currency translation adjustment during the period..... | (16) | -- | -- | -- | (16) | -- | (16) |
| Comprehensive income (loss)..... | \$(12,874) | \$(27) | \$(540) | \$116 | \$(13,325) | \$(6,042) (3) | \$(19,367) |
| Basic and diluted net loss per share..... | \$ (0.68) | | | | | (3) | \$ (0.91) |
| Weighted average number of shares of common stock outstanding used in computing basic and diluted net loss per share..... | 18,790 | | | | | 2,550 (3) | 21,340 |
| Pro forma basic and diluted net loss per share..... | \$ (0.31) | | | | | | \$ (0.42) |
| Shares used in computing pro forma basic and diluted net loss per share..... | 41,080 | | | | | 4,867 (3) | 45,947 |

LOOKSMART LTD. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS

For the six months ended June 30, 1999

| | LookSmart, Ltd. for the Six Months Ended June 30, 1999 | Guthy-Renker Internet, LLC for the 13 Weeks Ended April 4, 1999 | ITW NewCorp, Inc. for the Period January 1 to June 9, 1999 | Combined | Pro Forma Adjustments | Total |
|--|---|--|---|------------|--------------------------|------------|
| | (in thousands, except per share amounts) | | | | | |
| Net revenues..... | \$ 18,058 | \$3,471 | \$392 | \$ 21,921 | -- | \$ 21,921 |
| Cost of revenues..... | 2,754 | 2,287 | 128 | 5,169 | -- | 5,169 |
| Gross profit (loss)..... | 15,304 | 1,184 | 264 | 16,752 | -- | 16,752 |
| Operating expenses: | | | | | | |
| Sales and marketing... | 16,189 | 853 | 107 | 17,149 | -- | 17,149 |
| Product development... | 9,567 | -- | 84 | 9,651 | -- | 9,651 |
| General and administrative..... | 3,666 | 421 | 93 | 4,180 | -- | 4,180 |
| Amortization of goodwill, intangibles and deferred compensation..... | 4,652 | -- | -- | 4,652 | 2,610(1) | 7,262 |
| Total operating expenses..... | 34,074 | 1,274 | 284 | 35,632 | 2,610 | 38,242 |
| Loss from operations.... | (18,770) | (90) | (20) | (18,880) | (2,610) | (21,490) |
| Other income/(expense), net..... | (8) | -- | -- | (8) | -- | (8) |
| Interest income/(expense), net.. | 597 | -- | -- | 597 | -- | 597 |
| Income Taxes..... | (52) | (5) | -- | (57) | 5(2) | (52) |
| Net loss..... | (18,233) | (95) | (20) | (18,348) | (2,605) | (20,953) |
| Change in foreign currency translation adjustment during the period..... | 26 | -- | -- | 26 | -- | 26 |
| Comprehensive loss..... | \$(18,207) | \$ (95) | \$(20) | \$(18,322) | \$(2,605) | \$(20,927) |
| Basic and diluted net loss per share..... | \$ (0.86) | | | | | \$ (0.88) |
| Weighted average number of shares of common stock outstanding used in computing basic and diluted net loss per share..... | 21,265 | | | | 2,550(3) | 23,815 |
| Pro forma basic and diluted net loss per share..... | \$ (0.33) | | | | | \$ (0.38) |
| Shares used in computing pro forma basic and diluted net loss per share..... | 55,496 | | | | | 55,496 |

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

Pro forma adjustments for the unaudited pro forma combined statements of operations for the year ended December 31, 1998 and the six months ended June 30, 1999 are as follows:

- (1) Represents the amortization of intangible assets and goodwill. For the unaudited pro forma combined statement of operations for the year ended December 31, 1998 this amount also includes amortization of intangible assets and goodwill as a result of the BeSeen.com, Inc. merger.
- (2) Represents elimination of Guthy-Renker Internet, LLC tax provision.
- (3) Pro forma net loss reflects the impact of the adjustments above. Basic and diluted net loss per share (pro forma) is computed using the weighted-average number of shares of common stock outstanding after the issuance of LookSmart common stock to purchase the Guthy-Renker Internet, LLC assets. Pro forma basic and diluted net loss per share includes the weighted-average shares described above and it gives effect to the assumed conversion of LookSmart's Series A, B and C preferred stock, Series 1 Junior preferred stock and certain warrants at the date of issuance.

Report of Independent Accountants

To the Board of Directors and Stockholders of BeSeen.com, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of BeSeen.com, Inc. at December 31, 1997 and September 30, 1998, and the results of its operations and its cash flows for the period from January 27, 1997 (inception) to December 31, 1997 and for the nine month period ended September 30, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*/s/ PricewaterhouseCoopers
LLP*

*San Francisco, California
April 7, 1999*

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BESEEN.COM, INC.

BALANCE SHEETS

| | December 31, September | |
|---|------------------------|-----------|
| | 1997 | 1998 |
| | ----- | ----- |
| 30, | | |
| ----- | | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 6,500 | \$ 11,616 |
| Trade accounts receivable..... | -- | 85,151 |
| | ----- | ----- |
| Total current assets..... | 6,500 | 96,767 |
| Computer equipment and software, net..... | 15,347 | 33,426 |
| | ----- | ----- |
| Total assets..... | \$21,847 | \$130,193 |
| | ===== | ===== |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Trade accounts payable..... | \$ 6,152 | \$ 68,316 |
| Other accrued liabilities..... | -- | 13,912 |
| Income taxes payable..... | -- | 2,214 |
| | ----- | ----- |
| Total liabilities..... | 6,152 | 84,442 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock, \$.001 par value, 1,000,000 shares authorized; issued and outstanding: 79,342 and 101,388 shares December 31, 1997 and September 30, 1998, respectively..... | 79 | 101 |
| Additional paid-in capital..... | 46,012 | 100,015 |
| Accumulated deficit..... | (30,396) | (54,365) |
| | ----- | ----- |
| Total stockholders' equity..... | 15,695 | 45,751 |
| | ----- | ----- |
| Total liabilities and stockholders' equity.... | \$21,847 | \$130,193 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

BESEEN.COM, INC.

STATEMENTS OF OPERATIONS

| | January 27, 1997 (Inception) to December 31, 1997 | January 27, 1997 (Inception) to September 30, 1997 | Nine Months Ended September 30, |
|------------------------------------|---|--|------------------------------------|
| 1998 | | | |
| ----- | | | |
| Revenues..... | \$ 13,059 | \$ 1,299 | \$235,942 |
| Cost of revenues..... | (19,228) | (5,363) | (69,718) |
| Gross profit (loss)... | (6,169) | (4,064) | 166,224 |
| Operating expenses: | | | |
| Sales and marketing... | 5,772 | 1,668 | 22,738 |
| General and administrative..... | 10,759 | 2,933 | 143,031 |
| Research and development..... | 7,696 | 2,224 | 23,399 |
| Total operating expenses..... | 24,227 | 6,825 | 189,168 |
| Loss from operations..... | (30,396) | (10,889) | (22,944) |
| Interest expense, net... | -- | -- | (1,025) |
| Net loss..... | \$ (30,396) | \$ (10,889) | \$ (23,969) |

The accompanying notes are an integral part of these financial statements.

BESEEN.COM, INC.

**STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM JANUARY 27, 1997 (INCEPTION) TO SEPTEMBER 30, 1998**

| Stockholders' | Common Stock | | Additional | Accumulated | Total |
|---|--------------|--------|--------------------|-------------|-----------|
| | Shares | Amount | Paid in Capital | Deficit | Equity |
| ----- | | | | | |
| Balance at January 27, 1997 (inception)..... | -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Common stock issued for cash..... | 79,342 | 79 | 46,012 | -- | 46,091 |
| Net loss..... | -- | -- | -- | (30,396) | (30,396) |
| ----- | | | | | |
| Balance at December 31, 1997..... | 79,342 | 79 | 46,012 | (30,396) | 15,695 |
| Common stock issued for cash..... | 20,658 | 21 | 11,979 | -- | 12,000 |
| Common stock issued for conversion of notes..... | 1,121 | 1 | 42,024 | -- | 42,025 |
| Net loss..... | -- | -- | -- | (23,969) | (23,969) |
| ----- | | | | | |
| Balance at September 30, 1998..... | 101,121 | \$101 | \$100,015 | \$ (54,365) | \$ 45,751 |
| | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

BESEEN.COM, INC.

STATEMENTS OF CASH FLOWS

| 1998 | January 27, 1997 (Inception) to December 31, 1997 | January 27, 1997 (Inception) to September 30, 1997 | Nine Months Ended September 30, |
|--------------------------|---|--|---------------------------------------|
| ----- | | | |
| Cash flows from | | | |
| operating activities: | | | |
| Net loss..... | \$(30,396) | \$(10,889) | \$(23,969) |
| Adjustments to | | | |
| reconcile net loss to | | | |
| net cash used in | | | |
| operating activities: | | | |
| Depreciation and | | | |
| amortization..... | 2,337 | 983 | 8,011 |
| Noncash interest | | | |
| expense..... | -- | -- | 1,025 |
| Changes in operating | | | |
| assets and | | | |
| liabilities: | | | |
| Decrease (increase) | | | |
| in assets: | | | |
| Trade account | | | |
| receivable..... | -- | -- | (85,151) |
| Increase (decrease) | | | |
| in liabilities: | | | |
| Trade accounts | | | |
| payable..... | 6,152 | -- | 62,164 |
| Other accrued | | | |
| liabilities..... | -- | -- | 13,912 |
| Income taxes | | | |
| payable..... | -- | -- | 2,214 |
| | ----- | ----- | ----- |
| Net cash used in | | | |
| operating | | | |
| activities..... | (21,907) | (9,906) | (21,794) |
| | ----- | ----- | ----- |
| Cash flows from | | | |
| investing activities: | | | |
| Purchase of computers | | | |
| and software..... | (17,684) | (12,726) | (26,090) |
| | ----- | ----- | ----- |
| Net cash used in | | | |
| investing..... | (17,684) | (12,726) | (26,090) |
| | ----- | ----- | ----- |
| Cash flows from | | | |
| financing activities: | | | |
| Proceeds from | | | |
| stockholder | | | |
| contributions..... | 46,091 | 30,092 | 12,000 |
| Proceeds from issuance | | | |
| of note payable..... | -- | -- | 47,000 |
| Repayment of note | | | |
| payable..... | -- | -- | (6,000) |
| | ----- | ----- | ----- |
| Net cash provided by | | | |
| financing | | | |
| activities..... | 46,091 | 30,092 | 53,000 |
| | ----- | ----- | ----- |
| Net increase in cash and | | | |
| cash equivalents..... | 6,500 | 7,460 | 5,116 |
| Cash and cash | | | |
| equivalents, beginning | | | |
| of period..... | -- | -- | 6,500 |
| | ----- | ----- | ----- |
| Cash and cash | | | |
| equivalents, end of | | | |
| period..... | \$ 7,460 | \$ 7,460 | \$ 11,616 |
| | ----- | ----- | ----- |
| Supplemental noncash | | | |
| activity: | | | |
| Conversion of note | | | |

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of presentation:

BeSeen.com, Inc. (the Company) was incorporated on August 3, 1998 as a Texas corporation. As of that date, all interests in Duncan & Elmore, L.L.C., a Texas limited liability company formed on January 27, 1997, were transferred in exchange for 100,000 shares of BeSeen.com, Inc. common stock. The issuance of these shares is retroactively presented in these financial statements. The Company provides tools for website development and online community interaction.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition:

Revenues are derived principally from short-term advertising contracts in which the Company guarantees a minimum number of impressions (a view of an advertisement by a consumer) for a fixed fee. Revenues are recognized ratably over the period in which the advertisement is displayed, provided that no significant obligations remain and collection of the resulting receivable is probable. To the extent minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenue until the remaining guaranteed impression levels are achieved.

Revenues derived from monthly subscription services and upgrades are recognized in the period in which the services are provided. The Company records deferred revenues for any amounts received in advance of the completion of the subscription period.

Revenues from retail sales are recognized in the period in which the goods are shipped. Such revenues have been insignificant to date.

Cash and Cash Equivalents:

Cash and cash equivalents are stated at cost. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Computer Equipment and Software:

Computer equipment and software are recorded at cost and depreciated using the straight-line method over their useful lives of three years. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in operations.

Maintenance and repairs are charged to expense as incurred. Expenditures which substantially increase an asset's useful life are capitalized.

Computer equipment and software was \$17,684 and \$ 43,774 at December 31, 1997 and September 30 1998, respectively. Accumulated depreciation was \$2,337 and \$10,348 at December 31, 1997 and September 30, 1998, respectively.

NOTES TO FINANCIAL STATEMENTS

Product Development:

Costs incurred in the development of new products and enhancements to existing products are charged to expense as incurred. Statements of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based upon the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release are considered to be insignificant.

Deferred Revenues:

Deferred revenues primarily represent prepayments by customers for advertising space over a predetermined period.

Concentration of Credit Risk:

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company performs ongoing credit evaluations, does not require collateral, and maintains reserves for potential credit losses on customer accounts when deemed necessary.

Recently Issued Accounting Pronouncements:

In 1997 the Financial Accounting Standards Board issued SFAS No. 130, "Comprehensive Income" and No. 131, "Disclosure About Segments of an Enterprise and Related Information" which are effective for the year ending December 31, 1998. In 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which is effective for the year ending December 31, 1999. The Company has not yet determined the impact of the implementation of these pronouncements; however, it is not expected to be material to the financial statements.

2. Income Taxes:

On August 3, 1998, the Company changed its tax status from a Limited Liability Corporation to a C-Corporation. Prior to converting to a C-Corporation, the taxes were the responsibility of the members of the Limited Liability Corporation. There were no significant deferred tax balances at September 30, 1998.

3. Common Stock:

On August 3, 1998, the Company incorporated as a Texas corporation. On that date, the Corporation issued 1,000 share certificates for every one percent of membership interest to the owners Duncan & Elmore, L.L.C. for a total of 100,000 shares.

4. Related Party Transactions:

On July 1, 1998, the Company issued a note payable to a contracted technical support employee and investor in the amount of \$41,000. As of August 31, 1998, the outstanding principal and accrued interest of \$1,025 were converted into 1,121 shares of common stock.

On April 10, 1998, an interest free loan payable to a Company officer was originated in the amount of \$6,000. This loan was repaid on October 8, 1998.

5. Subsequent Event:

On October 23, 1998 in accordance with the Certificate of Merger and Articles of Merger then dated, LookSmart, Ltd. acquired all of the Company's outstanding shares of common stock, at which time the Company became a wholly owned subsidiary of LookSmart, Ltd.

REPORT OF INDEPENDENT AUDITORS

To the Members
Guthy-Renker Internet, LLC

We have audited the accompanying balance sheets of Guthy-Renker Internet, LLC, a California limited liability company, as of January 3, 1999 and December 31, 1997, and the related statements of operations, members' deficit, and cash flows for the 53 weeks ended January 3, 1999 and the year ended December 31, 1997, respectively. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guthy-Renker Internet, LLC at January 3, 1999 and December 31, 1997, and the results of its operations and its cash flows for the 53 weeks ended January 3, 1999 and the year ended December 31, 1997, respectively, in conformity with generally accepted accounting principles.

/s/ Ernst & Young

LLP

*Riverside, California
March 24, 1999,
except for Note 6, as to which the date is
April 9, 1999*

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

BALANCE SHEETS

| | January 3, 1999 | December 31, 1997 |
|---|--------------------|----------------------|
| | ----- | ----- |
| Assets | | |
| Current assets: | | |
| Accounts receivable..... | \$ 127,000 | \$ 89,000 |
| Deferred direct-response costs..... | 291,000 | 293,000 |
| Supplies inventory..... | 8,000 | -- |
| | ----- | ----- |
| Total current assets..... | 426,000 | 382,000 |
| Equipment..... | 241,000 | 212,000 |
| Accumulated depreciation..... | (167,000) | |
| (90,000) | | |
| | ----- | ----- |
| | 74,000 | 122,000 |
| | ----- | ----- |
| Total assets..... | \$ 500,000 | \$ 504,000 |
| | ===== | ===== |
| Liabilities and members' equity (deficit) | | |
| Current liabilities: | | |
| Accounts payable..... | \$ 1,016,000 | \$ 854,000 |
| Amounts due to member..... | 735,000 | 192,000 |
| Accrued Internet setup costs..... | 227,000 | 280,000 |
| Accrued expenses..... | 22,000 | 96,000 |
| Deferred revenue..... | 68,000 | 110,000 |
| | ----- | ----- |
| Total current liabilities..... | 2,068,000 | 1,532,000 |
| Contingencies | | |
| Members' deficit..... | (1,568,000) | |
| (1,028,000) | | |
| | ----- | ----- |
| Total liabilities and members' deficit..... | \$ 500,000 | \$ 504,000 |
| | ===== | ===== |

See accompanying notes.

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

STATEMENTS OF OPERATIONS

| | 53 weeks Ended January 3, 1999 | Year Ended December 31, 1997 |
|--|---|------------------------------------|
| | ----- | ----- |
| Gross revenues..... | \$11,201,000 | \$20,925,000 |
| Less returns..... (2,102,000) | (531,000) | |
| | ----- | ----- |
| Net revenues..... | 10,670,000 | 18,823,000 |
| Cost of revenues..... | 6,459,000 | 9,608,000 |
| | ----- | ----- |
| Gross profit..... | 4,211,000 | 9,215,000 |
| Cost and expenses: | | |
| Advertising expense..... | 3,214,000 | 5,364,000 |
| General and administrative expenses..... | 1,532,000 | 2,763,000 |
| | ----- | ----- |
| Total costs and expenses..... | 4,746,000 | 8,127,000 |
| | ----- | ----- |
| Income (loss) before tax expense..... | (535,000) | 1,088,000 |
| Income tax expense..... | 5,000 | 5,000 |
| | ----- | ----- |
| Net income (loss)..... | \$ (540,000) | \$ 1,083,000 |
| | ===== | ===== |

See accompanying notes.

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

STATEMENTS OF MEMBERS' DEFICIT

| | Guthy- Renker Corporation | Shim and Sons Enterprises, Inc. | Platform Dynamics, Inc. | Total |
|--|---------------------------------|------------------------------------|----------------------------|--------------|
| Balance at January 1, 1997..... | \$ 1,543,800 | \$ (28,400) | \$ (28,400) | \$ 1,487,000 |
| Net income..... | 649,800 | 216,600 | 216,600 | 1,083,000 |
| Distributions to members..... | (2,618,000) | (490,000) | (490,000) | |
| (3,598,000) | | | | |
| Balance at December 31, 1997..... | (424,400) | (301,800) | (301,800) | |
| (1,028,000) | | | | |
| Net loss..... | (432,000) | (108,000) | -- | |
| (540,000) | | | | |
| Transfer of negative equity of selling member..... | (301,800) | -- | 301,800 | -- |
| Balance at January 3, 1999..... | \$(1,158,200) | \$(409,800) | \$ -- | |
| \$(1,568,000) | | | | |
| | ===== | ===== | ===== | ===== |

See accompanying notes.

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

STATEMENTS OF CASH FLOWS

| | 53 weeks Ended January 3, | Year Ended December |
|---|---------------------------------|------------------------|
| 31, | 1999 | 1997 |
| | ----- | ----- |
| ----- | | |
| Cash flows from operating activities: | | |
| Net income (loss)..... | \$(540,000) | \$ 1,083,000 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation..... | 77,000 | 58,000 |
| Provision for loss on receivables..... | 197,000 | 104,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable..... | (235,000) | |
| (45,000) | | |
| Supplies inventory..... | (8,000) | -- |
| Amounts due to member..... | 543,000 | 192,000 |
| Deferred direct-response costs..... | 2,000 | |
| (92,000) | | |
| Accounts payable..... | 162,000 | 241,000 |
| Accrued Internet setup costs..... | (53,000) | 94,000 |
| Accrued expenses..... | (74,000) | 51,000 |
| Deferred revenues..... | (42,000) | |
| (162,000) | | |
| | ----- | ----- |
| Net cash provided by operating activities..... | 29,000 | 1,524,000 |
| Cash flows from investing activities | | |
| Purchases of equipment..... | (29,000) | |
| (78,000) | | |
| Cash flows from financing activities: | | |
| Amount due from member..... | -- | 2,152,000 |
| Distributions to members..... | -- | |
| (3,598,000) | | |
| | ----- | ----- |
| Net cash used in financing activities..... | -- | |
| (1,446,000) | | |
| Net change in cash..... | -- | -- |
| Cash at beginning of year..... | -- | -- |
| | ----- | ----- |
| Cash at end of year..... | \$ -- | \$ -- |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for taxes..... | \$ 5,000 | \$ 5,000 |
| | ===== | ===== |

See accompanying notes.

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

NOTES TO FINANCIAL STATEMENTS

JANUARY 3, 1999

1. Organization and Summary of Significant Accounting Policies

Organization

Guthy-Renker Internet, LLC, a California limited liability company (Company), was formed on January 1, 1996. Guthy-Renker Corporation (GRC), Shim and Sons Enterprises, Inc. (SSE) and Platform Dynamics, Inc. (PDI) are members of the Company having a 60%, 20% and 20% interest in the Company, respectively. On May 22, 1998, PDI sold its 20% interest to GRC. As a result of the transaction, GRC has \$800,000 of goodwill which has not been pushed down to the Company.

The Company is in the business of providing Internet-related seminars and selling Internet websites throughout the United States. The Company also receives revenues from processing sales orders of GRC products purchased through the Internet.

Effective January 1, 1998, the Company changed from a calendar year end to a 52- or 53-week year, ending on the Sunday nearest December 31 each year. For the convenience of the readers, the 52 or 53 weeks ended December 31, 1997 and January 3, 1999 will be referred to as the years ended 1997 and 1998, respectively.

Operating Agreement

As set forth in the Operating Agreement (the Agreement), no member is required to make any additional capital contributions other than the initial contributions unless there is unanimous consent of the members.

Net profits and losses shall be allocated to the members in proportion to their membership interests. Losses should be allocated only to the extent that such allocation will not create a deficit capital account balance. Any excess losses will be reallocated to the other members that have positive capital accounts. Any reallocation will be taken into account in computing subsequent allocations of income.

During 1997, the Company made distributions in excess of the amounts provided for under the Agreement. In accordance with the Agreement, these overpayments will be withheld from future cash distributions until the overpayments have been recovered.

The Company pays fees to the members for providing management and other services to the Company. The Company pays GRC a fee equal to 4% of the Company's gross revenues, as defined; SSE a fee of at least \$15,000 per month; and PDI a fee of 7% of certain revenues or otherwise \$15,000 per month until the dissolution of its member interest. The fees are considered remuneration for services and not distributions of the Company.

Each member's liability is limited pursuant to the Beverly-Killea Limited Liability Company Act. The term of the Company shall continue until December 31, 2050, unless terminated sooner pursuant to the terms of the Agreement.

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NOTES TO FINANCIAL STATEMENTS

Deferred Direct-Response Costs

Deferred direct-response costs include production costs and direct-response advertising costs. The Company defers these costs in accordance with Statement of Position 93-7, "Reporting on Advertising Costs." Production costs include various costs incurred by the Company to produce a commercial, generally for television, in which the Company's seminars are marketed. The costs are amortized over the estimated revenue stream, not to exceed 12 months. Direct-response advertising costs include costs of airing the commercials and are expensed when the revenues are recognized.

Equipment

Equipment is stated at cost and is depreciated using the straight-line method based on an estimated useful life of three years.

Accrued Internet Setup Costs

Accrued Internet setup costs represent estimated costs expected to be incurred for setup of Internet Web pages.

Income Taxes

As a limited liability company, the Company pays no federal income tax and a nominal state LLC surtax; the members include their respective share of profits or losses in their individual federal and state income tax returns.

Revenue Recognition

Revenues include seminar fees, sales of Internet Web pages, subscription sales of virtual mall Web pages and Internet sales order processing fees. The Company records revenues for the seminars when the seminars are conducted. Revenues for the Internet Web pages are recorded when the pages are delivered. Revenues for the subscription sales are recorded on a monthly basis. Revenues for the processing fees are recorded when the related products are shipped. The Company offers its services over a broad geographic base and is not dependent on any single customer or market geographic area.

Deferred revenue represents amounts received from customers for future seminars and is recognized when the seminar is given. Amounts received in advance for Internet subscriptions are recognized as revenue on a monthly basis.

Credit is extended based on an evaluation of the customer's financial condition and collateral is generally not required. Credit losses have traditionally been minimal and such losses have been within management's expectation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

2. Deferred Direct-Response Costs

Deferred direct-response costs are included in seminar and website expenses and advertising expenses and consist of direct-response advertising costs of \$291,000 and \$293,000 at January 3, 1999 and December 31, 1997, respectively.

3. Related-Party Transactions

In accordance with the Agreement (Note 1), the Company pays amounts to the members for providing management and other services to the Company. Total fees recognized as expense for fees paid to GRC, SSE and PDI were \$427,000, \$334,000 and \$23,000 in 1998, and \$742,000, \$534,000 and \$543,000 in 1997, respectively.

Commissions are paid to GRC for the sales of GRC products over the Internet and were approximately \$975,000 in 1998. There were no such expenses in 1997.

Amounts due to GRC for intercompany expenses totaled \$735,000 and \$192,000 at January 3, 1999 and December 31, 1997, respectively.

4. Contingencies

The Company is involved with pending litigation which has arisen in the ordinary course of business. Although the outcome of these matters is not presently determinable, management does not expect that the resolution of these matters will have a material adverse impact on the financial condition of the Company.

5. Impact of Year 2000 (Unaudited)

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. GRC performs the accounting functions for the Company. GRC has completed an assessment of its systems to ensure Year 2000 compliance and is upgrading their systems to be compliant by third quarter 1999.

There can be no assurance that the systems of customers and suppliers upon which the Company relies also will be compliant by the Year 2000. Should there be such a failure by the customers and suppliers to convert to a Year 2000 compliant status, it would not have a material adverse effect on the operations of the Company.

6. Subsequent Event

On April 9, 1999, the assets of the Company were sold to a third party.

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

BALANCE SHEETS

| | January 3, 1999 | April 4, 1999 |
|---|--------------------|------------------|
| | ----- | ----- |
| Assets | | |
| Current Assets: | | |
| Accounts receivable..... | \$ 127,000 | \$ 5,000 |
| Deferred direct-response costs..... | 291,000 | 138,000 |
| Supplies inventory..... | 8,000 | 8,000 |
| | ----- | ----- |
| Total current assets..... | 426,000 | 151,000 |
| Equipment..... | 241,000 | 255,000 |
| Accumulated depreciation..... (183,000) | (167,000) | |
| | ----- | ----- |
| | 74,000 | 72,000 |
| | ----- | ----- |
| Total assets..... | \$ 500,000 | \$ 223,000 |
| | ===== | ===== |
| Liabilities and members' equity (deficit) | | |
| Current liabilities: | | |
| Accounts payable..... | \$ 1,016,000 | \$ 789,000 |
| Amounts due to member..... | 735,000 | 773,000 |
| Accrued Internet setup costs..... | 227,000 | 250,000 |
| Accrued expenses..... | 22,000 | 27,000 |
| Deferred revenue..... | 68,000 | 47,000 |
| | ----- | ----- |
| Total current liabilities..... | 2,068,000 | 1,886,000 |
| Contingencies | | |
| Members' deficit..... (1,663,000) | (1,568,000) | |
| | ----- | ----- |
| Total liabilities and members' deficit..... | \$ 500,000 | \$ 223,000 |
| | ===== | ===== |

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

STATEMENTS OF OPERATIONS
(unaudited)

| Ended | Quarter | |
|--|---------------------------------|-------------------|
| | 13 Weeks Ended April 4, 1999 | March 31, 1998 |
| ----- | ----- | ----- |
| Gross revenues..... | \$3,580,000 | \$2,653,000 |
| Less returns..... | (109,000) | (60,000) |
| | ----- | ----- |
| Net revenues..... | 3,471,000 | 2,593,000 |
| Cost of revenues..... | 2,287,000 | 1,433,000 |
| | ----- | ----- |
| Gross profit..... | 1,184,000 | 1,160,000 |
| Costs and Expenses: | | |
| Advertising expense..... | 853,000 | 627,000 |
| General and administrative expenses..... | 421,000 | 407,000 |
| | ----- | ----- |
| Total costs and expenses..... | 1,274,000 | 1,034,000 |
| | ----- | ----- |
| Income (loss) before tax expense..... | (90,000) | 126,000 |
| Income tax expense..... | (5,000) | (5,000) |
| | ----- | ----- |
| Net income (loss)..... | \$ (95,000) | \$ 121,000 |
| | ===== | ===== |

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

STATEMENTS OF CASH FLOWS
(unaudited)

| Ended | 13 Weeks Ended | Quarter |
|--|-------------------|-------------------|
| | April 4, 1999 | March 31, 1998 |
| | ----- | |
| ----- | | |
| Cash flows from operating activities: | | |
| Net income (loss)..... | \$ (95,000) | \$121,000 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | |
| Depreciation..... | 16,000 | 19,000 |
| Change in operating assets and liabilities: | | |
| Accounts receivable..... | 122,000 | 32,000 |
| Amounts due to member..... | 38,000 | (12,000) |
| Deferred direct-response costs..... | 153,000 | 77,000 |
| Accounts payable..... | (227,000) | (94,000) |
| Accrued Internet setup costs..... | 23,000 | (31,000) |
| Accrued expenses..... | 5,000 | (46,000) |
| Deferred revenues..... | (21,000) | (52,000) |
| | ----- | ----- |
| Net cash provided by operating activities..... | 14,000 | 14,000 |
| Cash flows from investing activities: | | |
| Purchases of equipment..... | (14,000) | (14,000) |
| | ----- | ----- |
| Net change in cash..... | -- | -- |
| Cash at beginning of quarter..... | -- | -- |
| | ----- | ----- |
| Cash at end of quarter..... | \$ -- | \$ -- |
| | ===== | ===== |
| Supplemental Information: | | |
| Cash paid for taxes..... | \$ 5,000 | \$ -- |
| | ===== | ===== |

GUTHY-RENKER INTERNET, LLC
(a California limited liability company)

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

April 4, 1999

1. Basis of Presentation

In the opinion of management, the accompanying unaudited financial statements contain all normal recurring adjustments necessary to present fairly the financial position of Guthy-Renker Internet, LLC (Company) as of April 4, 1999 and the results of its operations and its cash flows for the three months ended March 31, 1998 and April 4, 1999. These financial statements should be read in conjunction with the audited financial statements and related notes as of and for the 53 weeks ended January 3, 1999. The operating results for the three months ended March 31, 1998 and 13 weeks ended April 4, 1999 are not necessarily indicative of the results of operations for a full year.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Contingencies

The Company is involved with pending litigation which has arisen in the ordinary course of business. Although the outcome of these matters is not presently determinable, management does not expect that the resolution of these matters will have a material adverse impact on the financial condition of the Company.

4. Subsequent Event

On April 9, 1999, the assets of the Company were sold to a third party.

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Report of Independent Accountants

To the Board of Directors and Shareholder of ITW NewCorp, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, stockholder's equity and cash flows present fairly, in all material respects, the financial position of ITW NewCorp, Inc., successor to Inside the Web, Inc., at December 31, 1997 and 1998, and March 31, 1999, the results of its operations and its cash flows for each of the years ended December 31, 1997 and 1998 and the three months ended March 31, 1999 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*/s/ PricewaterhouseCoopers
LLP
San Francisco, California
June 4, 1999*

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ITW NEWCORP, INC.

BALANCE SHEETS

| | December 31, | | March |
|--|--------------|-----------|-------|
| | 1997 | 1998 | 31, |
| 1999 | | | |
| ----- | ----- | ----- | ----- |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 1,737 | \$ 1,412 | \$ |
| 22,540 | | | |
| Trade accounts receivable..... | 10,878 | 135,123 | |
| 125,556 | | | |
| Other current assets..... | 3,208 | 41 | |
| 41 | | | |
| ----- | ----- | ----- | ----- |
| Total current assets..... | 15,823 | 136,576 | |
| 148,137 | | | |
| Property and equipment, net..... | 3,571 | 7,228 | |
| 8,659 | | | |
| ----- | ----- | ----- | ----- |
| Total assets..... | \$19,394 | \$143,804 | |
| \$156,796 | | | |
| ===== | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | | |
| Current liabilities: | | | |
| Trade accounts payable..... | \$ -- | \$ 1,976 | \$ |
| 5,058 | | | |
| Credit card and other liabilities..... | 7,998 | 8,371 | |
| 2,483 | | | |
| ----- | ----- | ----- | ----- |
| Total liabilities..... | 7,998 | 10,347 | |
| 7,541 | | | |
| ----- | ----- | ----- | ----- |
| Stockholder's equity: | | | |
| Common stock, \$.01 par value; 1,000 shares authorized; 100 issued and outstanding..... | 1 | 1 | |
| 1 | | | |
| Additional paid-in capital..... | 428 | 6,436 | |
| 6,436 | | | |
| Retained earnings..... | 10,967 | 127,020 | |
| 142,818 | | | |
| ----- | ----- | ----- | ----- |
| Total stockholder's equity..... | 11,396 | 133,457 | |
| 149,255 | | | |
| ----- | ----- | ----- | ----- |
| Total liabilities and stockholder's equity..... | \$19,394 | \$143,804 | |
| \$156,796 | | | |
| ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements

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ITW NEWCORP, INC.

STATEMENTS OF OPERATIONS

| | Years Ended December 31, | | Three Months Ended March 31, | |
|---------------------------------|-----------------------------|-----------|---------------------------------|-----------|
| | 1997 | 1998 | 1998 | 1999 |
| Revenues..... | \$37,458 | \$389,285 | \$28,124 | \$193,408 |
| Cost of revenues..... | 7,967 | 119,469 | 8,104 | 68,618 |
| Gross margin..... | 29,491 | 269,816 | 20,020 | 124,790 |
| Operating expenses: | | | | |
| Sales and marketing..... | 87 | 23,903 | 12 | 24,321 |
| General and administrative..... | 10,861 | 70,006 | 6,008 | 57,504 |
| Research and development..... | 9,161 | 58,422 | 9,374 | 27,053 |
| Total operating expenses..... | 20,109 | 152,331 | 15,394 | 108,878 |
| Income from operations..... | 9,382 | 117,485 | 4,626 | 15,912 |
| Interest expense..... (114) | (124) | (1,432) | (371) | |
| Net income..... | \$ 9,258 | \$116,053 | \$ 4,255 | \$ 15,798 |

The accompanying notes are an integral part of these financial statements

ITW NEWCORP, INC.

STATEMENT OF STOCKHOLDER'S EQUITY

| Stockholder's | Common Stock | | Additional | Retained | Total |
|---------------------------------|--------------|--------|--------------------|-----------|-----------|
| | Shares | Amount | Paid In Capital | Earnings | Equity |
| ----- | | | | | |
| Balance at January 1, 1997..... | 100 | \$ 1 | \$ 8 | \$ 1,709 | \$ 1,718 |
| Capital contributions..... | -- | -- | 420 | -- | 420 |
| Net income..... | -- | -- | -- | 9,258 | 9,258 |
| ----- | | | | | |
| Balance at December 31, 1997... | 100 | 1 | 428 | 10,967 | 11,396 |
| Capital contributions..... | -- | -- | 6,008 | -- | 6,008 |
| Net income..... | -- | -- | -- | 116,053 | 116,053 |
| ----- | | | | | |
| Balance at December 31, 1998... | 100 | 1 | 6,436 | 127,020 | 133,457 |
| Net income | -- | -- | -- | 15,798 | 15,798 |
| ----- | | | | | |
| Balance at March 31, 1999 | 100 | \$ 1 | \$6,436 | \$142,818 | \$149,255 |
| | === | === | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

ITW NEWCORP, INC.

STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | | Three Months Ended March 31, | |
|--|-----------------------------|------------|---------------------------------|----------|
| | 1997 | 1998 | 1998 | 1999 |
| Cash flows from operating activities: | | | | |
| Net income..... | \$ 9,258 | \$ 116,053 | \$ 4,255 | \$15,798 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | | |
| Depreciation and amortization..... | 308 | 2,124 | 437 | 841 |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in assets: | | | | |
| Trade accounts receivable..... | (9,430) | (124,245) | (8,937) | 9,567 |
| Other current assets..... | (3,070) | 3,167 | 3,117 | -- |
| Decrease (increase) in liabilities: | | | | |
| Trade accounts payable..... | -- | 1,976 | 2,670 | 3,082 |
| Credit card and other liabilities.. | 7,192 | 373 | 480 | |
| (5,888) | | | | |
| Net cash provided by (used) in operating activities..... | 4,258 | (552) | 2,022 | 23,400 |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment.... | (3,879) | (5,781) | (2,039) | |
| (2,272) | | | | |
| Net cash used in investing activities..... | (3,879) | (5,781) | (2,039) | |
| (2,272) | | | | |
| Cash flows from financing activities: | | | | |
| Proceeds from stockholder contributions..... | 420 | 6,008 | -- | -- |
| Net cash provided by financing activities..... | 420 | 6,008 | -- | -- |
| Net increase (decrease) in cash and cash equivalents..... | 799 | (325) | (17) | 21,128 |
| Cash and cash equivalents, beginning of period..... | 938 | 1,737 | 1,737 | 1,412 |
| Cash and cash equivalents, end of period..... | \$ 1,737 | \$ 1,412 | \$ 1,720 | \$22,540 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest..... | \$ 124 | \$ 1,432 | \$ 371 | \$ 114 |

The accompanying notes are an integral part of these financial statements

ITW NEWCORP, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Basis of Presentation:

ITW NewCorp, Inc. was incorporated March 9, 1999 and is the successor to Inside the Web, Inc., which was incorporated on August 5, 1998. The corporations are the successors to a sole proprietorship founded in September 1994. The corporations and sole proprietorship are referred to hereafter as "the Company". The Company provides free customized message board systems for existing Internet sites. Upon incorporation, the Company issued 100 shares of common stock with a par value of \$0.01 to the former sole proprietor in exchange for the assets and liabilities of the sole proprietorship. This issuance of common stock has been retroactively presented in these financial statements and all assets and liabilities have been presented at their historical basis.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition:

Revenues are derived principally from short-term advertising contracts. Revenues are recognized as impressions (a view of an advertisement by a consumer) are delivered, provided that no other significant obligations remain and collection of the resulting receivable is probable. The Company does not guarantee a minimum number of impressions to be delivered nor a minimum time period for which impressions will be delivered.

Cash and Cash Equivalents:

Cash and cash equivalents are stated at cost. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments:

The Company's financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value due to the relatively short maturity of those instruments.

Property and Equipment:

Property and equipment are recorded at cost and depreciated using the straight-line method over their useful lives of three years for computer equipment and five years for furniture and

NOTES TO FINANCIAL STATEMENTS

fixtures. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from their accounts, and any gain or loss on such sale or disposal is reflected in operations.

Maintenance and repairs are charged to expense as incurred. Expenditures which substantially increase an asset's useful life are capitalized.

Concentration of Credit Risk:

The Company has used two third-party marketing companies to generate more than 90% of its revenues for the years ended December 31, 1997 and 1998, and for the three month period ended March 31, 1999. As of December 31, 1997 and 1998 and March 31, 1999 receivables from these third party marketing companies exceeded 90% of total accounts receivable.

Comprehensive Income:

The Company adopted the provisions of Statement of Financial Accounting Standards No. 130 (SFAS No. 130), "Comprehensive Income". SFAS No. 130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from nonowner sources. To date, the Company has not had any transactions that are required to be included in comprehensive income other than net income.

Segment Information:

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131 (SFAS No. 131), "Disclosures about Segments of an Enterprise and Related Information". This statement establishes standards for the way companies report information about operating segments in financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. In accordance with the provisions of SFAS No. 131, the Company has determined that it does not have any separately reportable operating segments.

Recently Issued Accounting Pronouncements:

In 1998, the Financial Accounting Standards Board issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," and No. 133, "Accounting for Derivative Instruments and Hedging Activities," which are effective for the year ending December 31, 1999. The Company has not yet determined the impact of the implementation of these pronouncements; however, it is not expected to be material to the financial statements.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), which provides guidance for determining whether computer software is internal-use software and accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. SOP 98-1 also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The Company does not expect the adoption of SOP 98-1 to have a material effect on the financial statements.

ITW NEWCORP, INC.

NOTES TO FINANCIAL STATEMENTS

2. Property and Equipment:

Property and equipment consisted of the following at:

| | December 31, | | March 31, |
|---|--------------|---------|-----------|
| | ----- | ----- | ----- |
| | 1997 | 1998 | 1999 |
| | ----- | ----- | ----- |
| | | | |
| (unaudited) | | | |
| Computer equipment..... | \$3,879 | \$9,660 | \$10,863 |
| Furniture and fixtures.... | -- | -- | 1,069 |
| | ----- | ----- | ----- |
| | 3,879 | 9,660 | 11,932 |
| Less accumulated depreciation and amortization..... | 308 | 2,432 | 3,273 |
| | ----- | ----- | ----- |
| Property and equipment, net..... | \$3,571 | \$7,228 | \$ 8,659 |
| | ===== | ===== | ===== |

3. Income Taxes:

At August 5, 1998, the Company elected and continues to be treated as an S- corporation for tax purposes. Prior to this, the Company was a sole proprietorship. As an S-corporation, the Company's income and expenses are passed through to its stockholder rather than being taxed at the corporation level. The Company is not required to pay any federal or state taxes.

4. Common Stock:

On March 9, 1999, the Company reincorporated as a Florida corporation. The Company is authorized to issue 1,000 shares of common stock with a par value of \$0.01 per share.

5. Subsequent Events:

Subsequent to March 31, 1999, the Company sold substantially all of its assets to LookSmart, Ltd.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of LookSmart, Ltd. and Subsidiaries:

In our opinion, the accompanying balance sheet and the related statement of operations, stockholders' deficit and cash flows present fairly, in all material respects, the financial position of HomeBase Directories Pty Ltd at July 24, 1996, and the results of its operations and its cash flows for the period from January 1, 1996 to July 24, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

*/s/ PricewaterhouseCoopers
LLP
San Francisco, California
June 4, 1999*

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HOMEBASE DIRECTORIES PTY LTD.
(Predecessor to LookSmart, Ltd.)

BALANCE SHEET

| | July 24, 1996 |
|---|------------------|
| Assets | |
| Current assets: | |
| Cash..... | \$ 36,408 |
| Prepaid expenses..... | 15,291 |
| Other current assets..... | 791 |
| Total current assets..... | 52,490 |
| Plant and equipment, net..... | 281,937 |
| Total assets..... | \$ 334,427 |
| Liabilities and Stockholders' Deficit | |
| Current liabilities: | |
| Accounts payable..... | \$ 215,148 |
| Notes payable..... | 1,479,781 |
| Accrued liabilities..... | 73,559 |
| Total current liabilities..... | 1,768,488 |
| Total liabilities..... | 1,768,488 |
| Stockholders' deficit: | |
| Common stock, \$1 par value, 100,000 shares authorized; 12 shares issued and outstanding at July 24, 1996..... | \$ 12 |
| Additional paid-in capital..... | 53,321 |
| Cumulative translation adjustment..... | |
| (35,219) | |
| Accumulated deficit..... | |
| (1,452,175) | |
| Total stockholders' deficit..... | |
| (1,434,061) | |
| Total liabilities and stockholders' deficit..... | \$ 334,427 |
| | |

The accompanying notes are an integral part of these financial statements

HOMEBASE DIRECTORIES PTY LTD.
(Predecessor to LookSmart, Ltd.)

STATEMENT OF OPERATIONS

| | For the Period From January 1, 1996 to July 24, 1996 |
|---------------------------------|---|
| Operating expenses: | |
| Sales and marketing..... | \$ 271,997 |
| General and administrative..... | 568,403 |
| Product development..... | 545,272 |
| | ----- |
| Total operating expenses..... | 1,385,672 |
| | ----- |
| Loss from operations..... | |
| (1,385,672) | |
| Interest expense, net..... | |
| (42,391) | |
| | ----- |
| Net loss..... | |
| \$(1,428,063) | |
| | ===== |

The accompanying notes are an integral part of these financial statements

HOMEBASE DIRECTORIES PTY LTD.
(Predecessor to LookSmart, Ltd.)

STATEMENT OF STOCKHOLDERS' DEFICIT

| | Common Stock ----- Shares Amount | Additional Paid In Capital | Cumulative Translation Adjustment | Cumulative Deficit | Total Stockholders' Deficit | |
|--|--|----------------------------------|---|-----------------------|-----------------------------------|---------------|
| | ----- | ----- | ----- | ----- | ----- | |
| Balances at January 1, 1996..... | 12 | \$12 | \$ -- | \$ 139 | \$ (24,112) | \$ (23,961) |
| Stockholder contribution..... | -- | -- | 53,321 | -- | -- | 53,321 |
| Foreign currency translation adjustment..... | -- | -- | -- | (35,358) | -- | (35,358) |
| Net loss..... | -- | -- | -- | -- | (1,428,063) | (1,428,063) |
| | --- | --- | ----- | ----- | ----- | ----- |
| Balances at July 24, 1996..... | 12 | \$12 | \$53,321 | \$(35,219) | \$(1,452,175) | \$(1,434,061) |
| | === | === | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements

HOMEBASE DIRECTORIES PTY LTD.
(Predecessor to LookSmart, Ltd.)

STATEMENT OF CASH FLOWS

| | | |
|-------|--|---|
| 1996 | | For the period from January 1, to July 24, 1996 |
| ----- | | |
| | Cash flows from operating activities: | |
| | Net loss..... | \$(1,428,063) |
| | Adjustments to reconcile net loss to net cash provided by operating activities: | |
| | Depreciation expense..... | 34,201 |
| | Changes in operating assets and liabilities: | |
| | Increase in prepaid expenses..... | (14,023) |
| | Increase in other current assets..... | (773) |
| | Increase in accounts payable..... | 137,146 |
| | Increase in accrued liabilities..... | 77,290 |
| | Net cash used in operating activities..... | (1,194,222) |
| | Cash flows from investing activities: | |
| | Purchases of plant and equipment..... | (268,267) |
| | Net cash used in investing activities..... | (268,267) |
| | Cash flows from financing activities: | |
| | Proceeds from note payable..... | 1,048,073 |
| | Net cash provided by financing activities..... | 1,048,073 |
| | Decrease in cash..... | (414,416) |
| | Cash and cash equivalents, beginning of period..... | 450,824 |
| | Cash and cash equivalents, end of period..... | \$ 36,408 |
| | | ===== |

The accompanying notes are an integral part of these financial statements

HOMEBASE DIRECTORIES PTY LTD.
(Predecessor to LookSmart, Ltd.)

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Basis of Presentation:

HomeBase Directories Pty Ltd. (Company) was incorporated on September 11, 1995 in Melbourne, Australia and is the predecessor to LookSmart, Ltd. The Company's activities consisted of developing comprehensive Internet navigation services. On July 24, 1996, the Company sold substantially all assets and liabilities to NetGet Ltd.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition:

Interest revenue is recognized as it is earned. No revenues have been derived from the Company's product to date.

Cash and Cash Equivalents:

Cash and cash equivalents are stated at cost. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments:

The Company's financial instruments, including cash and cash equivalents, notes payable and accounts payable, are carried at cost, which approximates fair value due to the short maturity of those instruments.

Plant and Equipment:

Plant and equipment are recorded at cost and depreciated using the straight- line method over their useful lives, which is three years for computer equipment and five years for furniture and fixtures. Leasehold improvements are depreciated over the shorter of five years or the lease term. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in operations.

Maintenance and repairs are charged to expense as incurred. Expenditures which substantially increase an asset's useful life are capitalized.

Foreign Currency Translation:

The accounts of the Company are translated into U.S. dollars, the functional currency, at period end rates of exchange. Revenues and expenses are translated at average rates for the period. The resulting translation adjustments are shown as a separate component of stockholders' equity. Gains and losses from foreign currency transactions are included in the determination of operations and are not material.

HOMEBASE DIRECTORIES PTY LTD.
(Predecessor to LookSmart, Ltd.)

NOTES TO FINANCIAL STATEMENTS

2. Plant and Equipment:

Plant and equipment at July 24, 1996 consisted of the following:

| | |
|------------------------------------|-----------|
| Computer equipment..... | \$255,930 |
| Furniture and fixtures..... | 3,826 |
| Leasehold improvements..... | 56,382 |
| | ----- |
| | 316,138 |
| Less accumulated depreciation..... | |
| (34,201) | |
| | ----- |
| Plant and equipment, net..... | \$281,937 |
| | ===== |

3. Income Taxes:

For the period ended July 24, 1996, no income tax provision was recorded, as the Company did not have taxable income.

The primary components of the net deferred tax asset are as follows:

| | |
|---------------------------------------|------------|
| | July 24, |
| | 1996 |
| | ----- |
| Net operating loss carryforwards..... | \$ 495,350 |
| Less valuation allowance..... | |
| (495,350) | |
| | ----- |
| | \$ -- |
| | ===== |

Due to the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has placed a valuation allowance against its otherwise recognizable net deferred tax asset.

4. Notes Payable:

During 1995 and 1996, the Company borrowed \$1,479,781 from a strategic partner, and issued a note for the same amount.

5. Related Party Transactions:

During 1996, the company purchased plant and equipment from asia.java.com Pty Ltd, the Company's parent company, for \$10,856.

UNDERWRITING

LookSmart and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. With some conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., BancBoston Robertson Stephens Inc. and Hambrecht & Quist LLC are the representatives of the underwriters.

| Shares | Underwriter | Number of |
|--------|---|-----------|
| | Goldman, Sachs & Co. | |
| | BancBoston Robertson Stephens Inc. | |
| | Hambrecht & Quist LLC..... | |
| ----- | | |
| | Total..... | |
| | 12,000,000 | |
| ===== | | |

The underwriting agreement provides that if any of the shares of common stock are purchased by the underwriters, all of the shares of common stock that the underwriters have agreed to purchase under the underwriting agreement, must be purchased. If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 1,800,000 shares from LookSmart to cover such sales. They may exercise that option for 30 days. If any shares are purchased under this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following tables show the per share and total underwriting discounts and commissions to be paid to the underwriters by LookSmart. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

| Exercise | Paid by LookSmart | |
|----------------|-------------------|------|
| | No Exercise | Full |
| Per Share..... | \$ | \$ |
| Total..... | \$ | \$ |

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ per share from the initial public offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to \$ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

LookSmart and its directors, officers, employees and other stockholders have agreed with the underwriters not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representatives. This restriction does not apply to any issuances under LookSmart's existing employee benefit plans or pursuant to an acquisition transaction, provided that any person who acquires securities in an acquisition transaction agrees to be bound by the restriction for any remaining period. See "Shares Eligible for Future Sale" for a discussion of transfer restrictions.

Prior to this offering, there has been no public market for the common stock. The initial public offering price for the common stock has been negotiated among LookSmart and the representatives of the underwriters. Among the factors considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, were LookSmart's historical performance, estimates of LookSmart's business potential and earnings prospects, an assessment of LookSmart's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

Application has been made for quotation of the common stock on the Nasdaq National Market under the symbol "LOOK".

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of this underwriter in stabilizing or short-sale covering transactions.

These activities by the underwriters may stabilize, maintain or affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq National Market or in the over-the-counter market.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

The underwriters have reserved for sale, at the initial public offering price, up to 781,000 shares of common stock offered in this offering for individuals designated by LookSmart who have expressed an interest in purchasing the shares of common stock in the offering. The number of shares available for sale to the general public will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not purchased by these persons will be offered by the underwriters to the general public on the same basis as other shares offered in this offering.

LookSmart estimates that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$1,200,000.

LookSmart has agreed to indemnify the underwriters against liabilities, including liabilities under the Securities Act of 1933.

In LookSmart's March 1999 private placement of Series C preferred stock, Hambrecht & Quist California, the parent company of Hambrecht & Quist LLC, purchased 39,000 shares of Series C preferred stock for \$195,000. In addition, the Hambrecht & Quist Employee Venture Fund, L.P. II and the Access Technology Partners Brokers Fund, L.P. purchased an aggregate of 17,500 shares of Series C preferred stock for \$92,500. All of the limited partnership interests of these two funds are held by employees of Hambrecht & Quist California or Hambrecht & Quist LLC, and the general partner of both of these funds is H&Q Venture Management LLC, a subsidiary of Hambrecht & Quist California. Some employees of Hambrecht & Quist LLC also purchased an aggregate of 26,500

shares of Series C preferred stock in the private placement for approximately \$132,500, and H&Q Venture Management LLC and two employees of Hambrecht & Quist California together own a 1.0% general partnership interest in a partnership that purchased 315,999 shares of Series C preferred stock in the private placement. The purchases described above were made on the same terms as those made by other investors in the private placement, including the purchase price of \$5.00 per share.

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DESCRIPTION OF ARTWORK

[The inside back cover includes a graphic representation of LookSmart's network. The LookSmart logo appears at the center of the graphic. Emanating from the LookSmart logo are (clockwise from the top) the logos of the Microsoft Network, Netscape, Cox Interactive, and Netzero, a shaded oval with the text "220 ISPs," and the logos of Blue Mountain Arts, Excite, and PBS.]

Heading for the graphic: look at our network.

One statement appears beneath the graphic, with text as follows:

Our high quality, proprietary directory of Internet content is also accessible to millions of users through our distributed network. In May 1999 alone, nearly 43 million unique visitors accessed looksmart.com and the websites of our licensees. Source: Media Metrix.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including , 1999 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

12,000,000 Shares

LookSmart, Ltd.

Common Stock

Goldman, Sachs & Co.

BancBoston Robertson Stephens

Hambrecht & Quist

Representatives of the Underwriters

PART II

Information Not Required In Prospectus

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth all expenses to be paid by the Registrant, other than the underwriting discounts and commissions payable by the Registrant in connection with the sale of the common stock being registered. All amounts shown are estimates except for the registration fee and the NASD filing fee.

| Paid | Amount to be |
|--|-----------------|
| ----- | |
| Registration fee..... | \$ |
| 49,874 | |
| NASD filing fee..... | |
| 18,440 | |
| Nasdaq National Market System listing fee..... | |
| 95,000 | |
| Printing and engraving expenses..... | |
| 150,000 | |
| Legal fees and expenses..... | |
| 400,000 | |
| Accounting fees and expenses..... | |
| 300,000 | |
| Transfer agent and registrar fees..... | |
| 10,000 | |
| Miscellaneous expenses..... | |
| 176,686 | |
| ----- | |
| Total..... | |
| \$1,200,000 | |
| ===== | |

* To be supplied by amendment.

Item 14. Indemnification of Officers and Directors.

Section 145 of the Delaware General Corporation Law permits indemnification of officers, directors and other corporate agents under certain circumstances and subject to certain limitations. The Registrant's Certificate of Incorporation and Bylaws provide that the Registrant shall indemnify its directors, officers, employees and agents to the full extent permitted by Delaware General Corporation Law, including in circumstances in which indemnification is otherwise discretionary under Delaware law. In addition, the Registrant intends to enter into separate indemnification agreements with its directors, officers and certain employees which would require the Registrant, among other things, to indemnify them against certain liabilities which may arise by reason of their status or service (other than liabilities arising from willful misconduct of a culpable nature). The Registrant also intends to maintain director and officer liability insurance, if available on reasonable terms.

These indemnification provisions and the indemnification agreement to be entered into between the Registrant and its officers and directors may be sufficiently broad to permit indemnification of the Registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

The Registrant intends to obtain in conjunction with the effectiveness of the Registration Statement a policy of directors' and officers' liability insurance that insures the Registrant's directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances.

The underwriting agreement filed as Exhibit 1.1 to this Registration Statement provides for indemnification by the underwriters of the Registrant and its officers and directors for certain liabilities arising under the Securities Act, or otherwise.

Item 15. Recent Sales of Unregistered Securities.

Since our incorporation in July 1996, we have sold and issued the following securities:

- (1) On July 24, 1996, we issued 119,640,000 shares of common stock to two founding stockholders for an aggregate consideration of \$19,940.00.
- (2) On September 22, 1997, we repurchased 101,640,000 shares of our common stock from one founding stockholder for the aggregate repurchase price of \$16,940.00 in exchange for the issuance of a warrant to purchase 9,000,000 shares of common stock and a promissory note in the aggregate amount of \$1,500,000. Such warrant has an exercise price of \$0.00017 per share.
- (3) On January 5, 1998, we issued a warrant for 1,500,000 shares of mandatorily redeemable convertible preferred stock (Series A) to a bank in connection with a line of credit agreement for an aggregate purchase price of \$534,400.00.
- (4) On February 1, 1998, we issued to one investor a convertible promissory note in the aggregate amount of \$250,000.00, mandatorily redeemable for preferred stock (Series A).
- (5) On February 5, 1998, we issued to two investors convertible promissory notes in the aggregate amount of \$250,000.00, mandatorily redeemable for preferred stock (Series A).
- (6) On March 7, 1998, we issued to one investor a convertible promissory note in the aggregate amount of \$50,000.00, mandatorily redeemable for preferred stock (Series A).
- (7) On March 12, 1998, we issued to one investor a convertible promissory note in the aggregate amount of \$75,000.00, mandatorily redeemable for preferred stock (Series A).
- (8) On March 26, 1998, we issued a warrant for 1,010,412 shares of mandatorily redeemable convertible preferred stock (Series A) to one investor for an aggregate purchase price of \$359,976.12.
- (9) On March 27, 1998, we issued to one investor a convertible promissory note in the aggregate amount of \$1,500,000, mandatorily redeemable for preferred stock (Series A).
- (10) On April 6, 1998, we issued to one investor a warrant for 336,804 shares for an aggregate purchase price of \$56,134.00 and a convertible promissory note in the aggregate amount of \$500,000.00, both for mandatorily redeemable convertible preferred stock (Series A).
- (11) On May 6, 1998, we issued 1,057,500 shares of common stock to one director for an aggregate consideration of \$8,906.25.
- (12) On May 7, 1998, we issued 6,352,614 shares of Series A to seven investors for an aggregate consideration of \$2,287,493.39, we issued 14,327,748 shares of Series B to one investor for an aggregate consideration of 6,004,997.98, and we issued a warrant to purchase 1,500,000 shares of common stock to one investor for an aggregate purchase price of \$3,750,000.00 and warrants to purchase an aggregate of 3,024,924 shares of Series A to two investors for an aggregate of \$1,267,846.48.
- (13) On September 10, 1998, we issued a warrant to purchase 480,000 shares of common stock to one investor for an aggregate purchase price of \$200,800.00.
- (14) On October 23, 1998, we issued 6,000,000 shares of Series 1 Junior Preferred to seven investors for an aggregate of \$2,900,000.00 in connection with the acquisition of BeSeen.com, Inc. as a wholly-owned subsidiary.
- (15) On March 24, 1999, we issued 12,007,590 shares of Series C to 45 investors for an aggregate of \$60,037,950.00, and a warrant to purchase 439,999 shares of Series C to one investor for an aggregate purchase price of \$2,199,997.50. One April 26, 1999, we issued 75,939 shares of Series C Preferred Stock to 14 investors for an aggregate of \$379,695.00.
- (16) On April 9, 1999, we issued 2,550,000 shares of common stock to one investor for the aggregate consideration of \$6,375,000.00 in connection with an asset purchase.

(17) On June 9, 1999, we issued warrants to purchase an aggregate of 540,000 shares of common stock to 4 investors for an aggregate consideration of \$675,000 in connection with an asset purchase.

(18) Since our incorporation, we have issued, and there remain outstanding, options to purchase an aggregate of 11,861,003 shares of common stock with exercise prices ranging from \$0.00953 to \$10.66667 per share. Since our incorporation, options to purchase 2,009,100 shares of common stock have been exercised for an aggregate consideration of \$43,348.43.

There were no underwriters employed in connection with any of the transactions set forth in Item 15.

The issuances of securities described in Items 15(1), (4), (5), (7), (9), (12), and (15) were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) and on Regulation S of the Securities Act as transactions by an issuer not involving a public offering and the offer and sale of securities to non-U.S. investors. The issuance of securities described in Items 15(2), (3), (6), (10), (11), (13), (16) and (17) were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. The issuance of securities described in item 15(14) were deemed to be exempt from registration in reliance on Sections (2) and 4(6) of the Securities Act. The issuances of securities described in Item 15(18) were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) or Rule 701 promulgated thereunder as transactions pursuant to compensatory benefit plans and contracts relating to compensation. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. All recipients either received adequate information about the Registrant or had access, through employment or other relationships, to such information.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits.

| Exhibit Number | Description of Document |
|-------------------|---|
| 1.1 | Form of Underwriting Agreement |
| 3.1 | Certificate of Incorporation as currently in effect |
| 3.2 | Form of Restated Certificate of Incorporation (to be filed with the Delaware Secretary of State prior to the closing of the offering covered by this Registration Statement) |
| 3.3* | Bylaws as currently in effect |
| 3.4* | Form of Bylaws (to be adopted upon the completion of the offering covered by this Registration Statement) |
| 4.1 | Form of Specimen Stock Certificate |
| 4.2* | Second Amended and Restated Investor Rights Agreement dated March 24, 1999 |
| 5.1 | Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation, regarding legality of the securities being issued |
| 10.1 | Form of Indemnification Agreement, to be entered into between the Registrant and each of its directors and officers, to become effective upon the closing of the offering made under this Registration Statement |
| 10.2 | Amended and Restated 1998 Stock Plan |
| 10.3 | 1999 Employee Stock Purchase Plan |
| 10.4+* | License and Update Agreement with Microsoft Corporation |
| 10.5+* | Asset Purchase Agreement with Guthy-Renker Internet, LLC |
| 10.6+* | Agreement and Plan of Reorganization with BeSeen.com, Inc. |
| 10.7 * | Procurement and Trafficking Agreement with DoubleClick, Inc. |

| Exhibit Number | Description of Document |
|----------------|---|
| 10.8+* | Development Agreement with Cox Interactive Media, Inc. |
| 10.9+* | Premier Positions on US Search Pages with Netscape Communications Corporation |
| 10.10+* | PBS Group Sponsorship Agreement |
| 10.10A | Agreement with Educational Broadcasting Corporation regarding Chefs of Cucina Amore, dated June 18, 1999 |
| 10.10B | Agreement with Educational Broadcasting Corporation regarding Great Food, dated June 18, 1999 |
| 10.10C | Agreement with Educational Broadcasting Corporation regarding Master Chef USA, dated June 18, 1999 |
| 10.10D | Agreement with WGBH Educational Foundation regarding Mystery!, dated June 7, 1999 |
| 10.10E | Agreement with Children's Television Workshop regarding Sesame Street, dated June 28, 1999 |
| 10.11* | Sublease Agreement with Wired Ventures, Inc. for property located at |
| | 660 Third Street, San Francisco, California, dated December 2, 1998 |
| 10.12* | Lease Agreement with 487 Bryant Street, LLC for property located at 487 Bryant Street, San Francisco, California, dated May 4, 1998 |
| 10.13* | Sublease Agreement with Skidmarks, Inc. for property located at 550 Bryant Street, San Francisco, California, dated November 18, 1998 |
| 10.14* | Sublease Agreement with Jaran, Inc. for property located at 275 Brannan Street, San Francisco, California, dated April 30, 1999 |
| 10.15* | Lease Agreement with Rosenberg SOMA Investments III, LLC for property located at 625 Second Street, San Francisco, California, dated May 5, 1999 |
| 10.16* | Consent to Sublease Agreement with Ninety Park Property LLC, and First Manhattan Consulting Group Inc. for property located at 90 Park Avenue, New York, New York, dated October 22, 1998 |
| 10.17* | Lease Agreement with Euro Asia Properties Pty Ltd for property located at Level 5, 388 Lonsdale Street, Melbourne, Australia, dated |
| | September 1, 1998 |
| 10.18* | Lease Agreement with Tonicalon Pty Limited for property located at Level 3, 68 Alfred Street, Milsons Point, Sydney, Australia, dated June 1, 1999 |
| 10.19* | Summary Plan Description of 401(k) Plan |
| 21.1* | List of Subsidiary |
| 23.1 | Consent of PricewaterhouseCoopers LLP (LookSmart, Ltd.) |
| 23.2 | Consent of PricewaterhouseCoopers LLP (BeSeen.com, Inc.) |
| 23.3 | Consent of Ernst & Young LLP (Guthy-Renker Internet, LLC) |
| 23.4 | Consent of PricewaterhouseCoopers LLP (ITW NewCorp, Inc.) |
| 23.5 | Consent of PricewaterhouseCoopers LLP (HomeBase Directories Pty Ltd.) |
| 23.6 | Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (contained in Exhibit 5.1) |
| 24.1* | Power of Attorney (contained in the signature page to this Registration Statement) |
| 27.1 | Financial Data Schedule |

+ confidential treatment requested

* previously filed

(b) Financial Statement Schedules.

Schedule II--Valuation and Qualifying Accounts.

Item 17. Undertakings

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

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Insofar as indemnification by the Registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referenced in Item 14 of this Registration Statement or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(17) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the Offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Francisco, County of San Francisco, State of California, on the day of July 27, 1999.

LOOKSMART, LTD.

Evan Thornley*

By: _____
Evan Thornley, Chief Executive
Officer

Pursuant to the requirements of the Securities Act, this Amendment to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

| | Signature ----- | Title ----- | Date ---- |
|------|--|---|--------------|
| 1999 | Evan Thornley* _____ (Evan Thornley) | Chairman, Chief Executive Officer and Director (Principal Executive Officer) | July 27, |
| 1999 | Tracey Ellery* _____ (Tracey Ellery) | President, Director | July 27, |
| 1999 | /s/ Patricia Cole _____ (Patricia Cole) | Chief Financial Officer (Principal Financial and Accounting Officer) | July 27, |
| 1999 | Anthony Castagna* _____ (Anthony Castagna) | Director | July 27, |
| 1999 | Paul Riley* _____ (Paul Riley) | Director | July 27, |
| 1999 | Robert J. Ryan* _____ (Robert J. Ryan) | Director | July 27, |
| 1999 | Scott Whiteside* _____ (Scott Whiteside) | Director | July 27, |

/s/ Patricia Cole

*By: _____

Patricia Cole

Attorney-in-fact

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REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

Board of Directors and Stockholders of LookSmart, Ltd. and Subsidiaries:

We have audited the financial statements of LookSmart, Ltd. and subsidiaries as of December 31, 1997 and 1998 and for the period from July 19, 1996 (inception) to December 31, 1996 and for each of the two years in the period ended December 31, 1998, and have issued our report thereon dated May 7, 1999. Our audits also included the financial statement schedule listed in Item 16(b) of this Registration Statement. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information required to be included therein.

*/s/ PricewaterhouseCoopers
LLP*

*San Francisco, California
May 7, 1999*

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SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

LookSmart, Ltd. and Subsidiaries

| Balance | | | | |
|--|------------|------------|------------|---------|
| Description | Balance at | Charged to | Deductions | at End |
| ----- | Beginning | Costs and | ----- | of |
| ----- | of Period | Expenses | ----- | Period |
| ----- | ----- | ----- | ----- | ----- |
| Period from July 19, 1996 (inception) to December 31, 1996: | | | | |
| Deferred tax valuation allowance... | \$ -- | \$ 986 | \$ -- | \$ 986 |
| | ----- | ----- | ----- | ----- |
| Total..... | \$ -- | \$ 986 | \$ -- | \$ 986 |
| | ===== | ===== | ===== | ===== |
| Year ended December 31, 1997: | | | | |
| Deferred tax valuation allowance... | \$ 986 | \$3,191 | \$ -- | \$4,177 |
| | ----- | ----- | ----- | ----- |
| Total..... | \$ 986 | \$3,191 | \$ -- | \$4,177 |
| | ===== | ===== | ===== | ===== |
| Year ended December 31, 1998: | | | | |
| Allowance for doubtful accounts.... | \$ -- | \$ 127 | \$ -- | \$ 127 |
| Deferred tax valuation allowance... | 4,177 | 4,658 | -- | 8,834 |
| | ----- | ----- | ----- | ----- |
| Total..... | \$4,177 | \$4,785 | \$ -- | \$8,961 |
| | ===== | ===== | ===== | ===== |

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EXHIBIT INDEX

| Exhibit Number | Description of Document |
|-------------------|--|
| 1.1 | Form of Underwriting Agreement |
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| 24.1* | Power of Attorney (contained in the signature page to this Registration Statement) |
| 27.1 | Financial Data Schedule |

+ confidential treatment requested

* previously filed

EXHIBIT 1.1

LookSmart, Ltd.

Common Stock, par value \$0.001 per share

Underwriting Agreement

, 1999

Goldman, Sachs & Co.,
BancBoston Robertson Stephens Inc.
Hambrecht & Quist LLC

As representatives of the several Underwriters named in Schedule I hereto
c/o Goldman, Sachs & Co.
85 Broad Street
New York, New York 10004

Ladies and Gentlemen:

LookSmart, Ltd., a Delaware corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I hereto (the "Underwriters") an aggregate of 12,000,000 shares (the "Firm Shares") and, at the election of the Underwriters, up to 1,800,000 additional shares (the "Optional Shares") of Common Stock, par value \$0.001 per share ("Stock"), of the Company (the Firm Shares and the Optional Shares that the Underwriters elect to purchase pursuant to Section 2 hereof being collectively called the "Shares").

1. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) A registration statement on Form S-1 (File No. 333-80581) (the "Initial Registration Statement") in respect of the Shares has been filed with the Securities and Exchange Commission (the "Commission"); the Initial Registration Statement and any post-effective amendment thereto, each in the form heretofore delivered to you, and, excluding exhibits thereto, to you for each of the other Underwriters, have been declared effective by the Commission in such form; other than a registration statement, if any, increasing the size of the offering (a "Rule 462(b) Registration Statement"), filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Act"), which became or will become effective upon filing, no other document with respect to the Initial Registration Statement has heretofore been filed with the Commission; and no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose has been initiated or threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the Act is hereinafter called a "Preliminary Prospectus"; the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto and including the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof and deemed by virtue of Rule 430A under the Act to be part of the Initial Registration Statement at the time it was declared effective, each as amended at the time such part of the Initial Registration Statement became effective or such part of the Rule 462(b) Registration Statement, if any, became or hereafter becomes effective, are hereinafter collectively called the "Registration Statement"; and such final prospectus, in the form first filed pursuant to Rule 424(b) under the Act, is hereinafter called the "Prospectus";

(b) No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission, and each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(c) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will conform, in all material respects to the requirements of the Act and the rules and

regulations of the Commission thereunder and do not and will not, as of the applicable effective date as to the Registration Statement and any amendment thereto, and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(d) The Company's only "significant subsidiary" as that term is defined in Regulation S-X is BeSeen.Com, Inc. ("BeSeen"). Neither the Company nor any of its subsidiaries has sustained since the date of the latest audited financial statements included in the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus;

(e) The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries;

(f) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of Delaware, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, or

is subject to no material liability or disability by reason of the failure to be so qualified in any such jurisdiction; and each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation;

(g) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus; the shares of Stock issuable upon conversion of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock and the Series 1 Junior Preferred Stock (collectively, the "Preferred Stock") have been duly and validly authorized and reserved for issuance upon such conversion and, upon conversion of the Preferred Stock on the First Time of Delivery (as defined in Section 4 hereof), the shares of Stock issuable upon such conversion will be validly issued, fully paid and non-assessable and will conform to the description of the Stock contained in the Prospectus; all outstanding warrants (the "Warrants") to purchase shares of capital stock of the Company have been duly and validly authorized, executed and delivered by the Company and constitute valid and binding obligations of the Company enforceable against the Company in accordance with their terms, and the shares of capital stock issuable upon exercise of such Warrants have been duly and validly authorized and reserved for issuance upon such exercise and, upon payment of the exercise price thereof upon exercise of such Warrants, such shares of capital stock will be validly issued, fully paid and non-assessable and will conform to the description of such stock contained in the Prospectus; except as described or contemplated in the Prospectus, there are no outstanding rights, warrants or options to acquire, or instruments convertible into or exchangeable for, any shares of capital stock of, or other equity interests in, the Company, or any contract, commitment, agreement, understanding or arrangement of any kind relating to the issuance of any capital stock of the Company or any such convertible or exchangeable securities or any such rights, warrants or options; and all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and (except for directors' qualifying shares) are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims;

(h) The unissued Shares to be issued and sold by the Company to the Underwriters hereunder have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued and fully paid and non-assessable and will conform to the description of the Stock contained in the Prospectus;

(i) The issue and sale of the Shares by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Act of the Shares and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters;

(j) No holder of securities of the Company has any rights to the registration of such securities for sale under the Act in connection with this Offering as a result of the filing of the Registration Statement or otherwise in connection with the offer and sale of the Shares by the Underwriters hereunder;

(k) Neither the Company nor any of its subsidiaries is in violation of its Certificate of Incorporation or By-laws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound;

(l) The statements set forth in the Prospectus under the caption "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Stock, and the provisions of the laws and documents referred to therein, are accurate and complete;

(m) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the current or future consolidated financial position, stockholders' equity or results of operations of the Company and its

subsidiaries; and, to the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(n) The Company is not and, after giving effect to the offering and sale of the Shares, will not be an "investment company", as such term is defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(o) Neither the Company nor any of its affiliates does business with the government of Cuba or with any person or affiliate located in Cuba within the meaning of Section 517.075, Florida Statutes;

(p) PricewaterhouseCoopers LLP, who have certified certain financial statements of the Company and its subsidiaries, and Ernst & Young, who have certified certain financial statements of Guthy-Renker Corporation, are each independent public accountants as required by the Act and the rules and regulations of the Commission thereunder;

(q) The financial statements and schedules of the Company and its subsidiaries included in the Registration Statement and the Prospectus were prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved and present fairly the financial condition of the Company and its subsidiaries as of the dates indicated therein and the results of operations of the Company and its subsidiaries for the periods indicated therein; and except as disclosed in the Registration Statement and the Prospectus, the pro forma financial information included in the Registration Statement and the Prospectus has been prepared in accordance with the Act and the rules and regulations of the Commission thereunder and the assumptions used in the preparation thereof are reasonable;

(r) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences;

(s) The Company owns, or possesses adequate rights to use, all material trademarks, service marks, trade mark registrations, service mark registrations, domain names, copyrights, licenses, inventions and know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or

procedures) necessary for the conduct of its business as described in the Prospectus, and, except as set forth in the Prospectus, the Company has no reason to believe that the conduct of its business will conflict with, and has not received any notice of any claim of conflict with, any such rights of others, except as would not have a material adverse effect on the business, financial condition, results of operations or prospects of the Company; and, to the Company's knowledge, neither the Company nor any of its subsidiaries have infringed or are infringing any trademarks, service marks, trade mark registrations, service mark registrations, domain names or copyrights, which infringement could reasonably be expected to result in a material adverse change in or affecting the general affairs, financial position, stockholder's equity or results of operations of the Company and its subsidiaries;

(t) The Company possesses adequate rights to use all material patents necessary for the conduct of its business; to the Company's knowledge, no valid United States patent is or would be infringed by the activities of the Company, except as would not have a material adverse effect on the business, financial condition, results of operations or prospects of the Company; there are no actions, suits or proceedings pending relating to patents or proprietary information to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is subject and, to the Company's knowledge, no such actions, suits or proceedings are threatened by governmental authorities or others; the Company is not aware of any claim by others that the Company is infringing or otherwise violating the patents or other intellectual property of others and, except as set forth in the Prospectus, is not aware of any rights of third parties to any of the Company's licensed patents or licenses which could materially affect the use thereof by the Company; and

(u) The Company has reviewed its operations and that of its subsidiaries and any third parties with which the Company or any of its subsidiaries has a material relationship to evaluate the extent to which the business or operations of the Company or any of its subsidiaries will be affected by the Year 2000 Problem. As a result of such review, the Company has no reason to believe, and does not believe, that the Year 2000 Problem will have a material adverse effect on the general affairs, management, the current or future consolidated financial position, business prospects, stockholders' equity or results of operations of the Company and its subsidiaries or result in any material loss or interference with the Company's business or operations. The "Year 2000 Problem" as used herein means any significant risk that computer hardware or software used in the receipt, transmission, processing, manipulation, storage, retrieval, retransmission or other utilization of data or in the operation of mechanical or electrical systems of any kind will not, in the case of dates or time periods occurring after December 31, 1999, function at least as effectively as in the case of dates or time periods occurring prior to January 1, 2000.

2. Subject to the terms and conditions herein set forth, (a) the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price per share of \$_____, the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto and (b) in the event and to the extent that the Underwriters shall exercise the election to purchase Optional Shares as provided below, the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at the purchase price per share set forth in clause (a) of this Section 2, that portion of the number of Optional Shares as to which such election shall have been exercised (to be adjusted by you so as to eliminate fractional shares) determined by multiplying such number of Optional Shares by a fraction, the numerator of which is the maximum number of Optional Shares which such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the maximum number of Optional Shares that all of the Underwriters are entitled to purchase hereunder.

The Company hereby grants to the Underwriters the right to purchase at their election up to 1,800,000 Optional Shares, at the purchase price per share set forth in the paragraph above, for the sole purpose of covering sales of shares in excess of the number of Firm Shares. Any such election to purchase Optional Shares may be exercised only by written notice from you to the Company, given within a period of 30 calendar days after the date of this Agreement, setting forth the aggregate number of Optional Shares to be purchased and the date on which such Optional Shares are to be delivered, as determined by you but in no event earlier than the First Time of Delivery (as defined in Section 4 hereof) or, unless you and the Company otherwise agree in writing, earlier than two or later than ten business days after the date of such notice.

3. Upon the authorization by you of the release of the Firm Shares, the several Underwriters propose to offer the Firm Shares for sale upon the terms and conditions set forth in the Prospectus.

4. (a) The Shares to be purchased by each Underwriter hereunder, in definitive form, and in such authorized denominations and registered in such names as Goldman, Sachs & Co. may request upon at least 48 hours' prior notice to the Company shall be delivered by or on behalf of the Company to Goldman, Sachs & Co., through the facilities of the Depository Trust Company ("DTC"), for the account of such Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer of Federal (same-day) funds to the account specified by the Company to Goldman, Sachs & Co. at least 48 hours in advance. The Company will cause the certificates representing the Shares to be made available for checking and packaging at least 24 hours prior to the Time of Delivery (as defined below) with respect thereto at the office of DTC or its designated custodian (the "Designated Office"). The time and date of such delivery and payment shall be, with respect to the Firm Shares, 9:30 a.m., New York

City time, on _____, 1999 or such other time and date as Goldman, Sachs & Co. and the Company may agree upon in writing, and, with respect to the Optional Shares, 9:30 a.m., New York City time, on the date specified by Goldman, Sachs & Co. in the written notice given by Goldman, Sachs & Co. of the Underwriters' election to purchase such Optional Shares, or such other time and date as Goldman, Sachs & Co. and the Company may agree upon in writing. Such time and date for delivery of the Firm Shares is herein called the "First Time of Delivery", such time and date for delivery of the Optional Shares, if not the First Time of Delivery, is herein called the "Second Time of Delivery", and each such time and date for delivery is herein called a "Time of Delivery".

(b) The documents to be delivered at each Time of Delivery by or on behalf of the parties hereto pursuant to Section 7 hereof, including the cross receipt for the Shares and any additional documents requested by the Underwriters pursuant to Section 7(k) hereof, will be delivered at the offices of Wilson Sonsini Goodrich & Rosati, P.C., 650 Page Mill Road, Palo Alto, California 94304 (the "Closing Location"), and the Shares will be delivered at the Designated Office, all at such Time of Delivery. A meeting will be held at the Closing Location at 12:00 p.m., New York City time, on the New York Business Day next preceding such Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Section 4, "New York Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close.

5. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by you and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Act; to make no further amendment or any supplement to the Registration Statement or Prospectus which shall be disapproved by you promptly after reasonable notice thereof; to advise you, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish you with copies thereof; to advise you, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order

preventing or suspending the use of any Preliminary Prospectus or prospectus or suspending any such qualification, promptly to use its best efforts to obtain the withdrawal of such order;

(b) Promptly from time to time to take such action as you may reasonably request to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) Prior to 10:00 a.m., New York City time, on the New York Business Day next succeeding the date of this Agreement and from time to time, to furnish the Underwriters with copies of the Prospectus in New York City in such quantities as you may reasonably request, and, if the delivery of a prospectus is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Shares and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such period to amend or supplement the Prospectus in order to comply with the Act, to notify you and upon your request to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as you may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required to deliver a prospectus in connection with sales of any of the Shares at any time nine months or more after the time of issue of the Prospectus, upon your request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement, an earnings statement (as defined in Rule 158(c) under the Act) of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations thereunder (including, at the option of the Company, Rule 158);

- (e) During the period beginning from the date hereof and continuing to and including the date 180 days after the date of the Prospectus, not to offer, sell, contract to sell or otherwise dispose of, except as provided hereunder any securities of the Company that are substantially similar to the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar securities (other than (i) pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement or (ii) pursuant to an acquisition transaction, provided that any person who acquires securities of the Company in this manner agrees not to offer, sell contract to sell or otherwise dispose of such securities for the period of time beginning from the date of acquisition of such securities and continuing to and including the date 180 days after the date of the Prospectus), without your prior written consent;
- (f) To furnish to its stockholders as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flows of the Company and its consolidated subsidiaries certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), to make available to its stockholders consolidated summary financial information of the Company and its subsidiaries for such quarter in reasonable detail;
- (g) During a period of three years from the effective date of the Registration Statement, to furnish to you copies of all reports or other communications (financial or other) furnished to stockholders, and to deliver to you (i) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as you may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company and its subsidiaries are consolidated in reports furnished to its stockholders generally or to the Commission);
- (h) To use the net proceeds received by it from the sale of the Shares pursuant to this Agreement in the manner specified in the Prospectus under the caption "Use of Proceeds";
- (i) To file with the Commission such information on Form 10-Q or Form 10-K as may be required by Rule 463 under the Act;
- (j) To use its best efforts to list for quotation the Shares on the Nasdaq National Market System ("NASDAQ"); and

(k) If the Company elects to rely upon Rule 462(b), the Company shall file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) by 10:00 p.m., Washington, D.C. time, on the date of this Agreement, and the Company shall at the time of filing either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act.

6. The Company covenants and agrees with the several Underwriters that the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing any Agreement among Underwriters, this Agreement, the Blue Sky Memorandum, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses in connection with the qualification of the Shares for offering and sale under state securities laws as provided in Section 5(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky survey; (iv) all fees and expenses in connection with listing the Shares on NASDAQ; (v) the filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with, securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Shares; (vi) the cost of preparing stock certificates; (vii) the cost and charges of any transfer agent or registrar; and (viii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section. It is understood, however, that, except as provided in this Section, and Sections 8 and 11 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, stock transfer taxes on resale of any of the Shares by them, and any advertising expenses connected with any offers they may make.

7. The obligations of the Underwriters hereunder, as to the Shares to be delivered at each Time of Delivery, shall be subject, in their discretion, to the condition that all representations and warranties and other statements of the Company herein are, at and as of such Time of Delivery, true and correct, the condition that the Company shall have performed all of its obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 5(a) hereof; if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have become effective by 10:00 p.m., Washington, D.C. time, on the date of this Agreement;

no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction;

(b) Shearman & Sterling, counsel for the Underwriters, shall have furnished to you such written opinion or opinions (a draft of each such opinion is attached as Annex II(a) hereto), dated such Time of Delivery, with respect to certain matters covered in paragraphs (i), (ii), (vii), (xi) and (xiv) of subsection (c) below as well as such other related matters as you may reasonably request, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(c) Wilson Sonsini Goodrich & Rosati, Professional Corporation, counsel for the Company, shall have furnished to you their written opinion (a draft of such opinion is attached as Annex II(b) hereto), dated such Time of Delivery, in form and substance satisfactory to you, to the effect that:

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of Delaware, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus;

(ii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company (including the Shares being delivered at such Time of Delivery and the shares of Stock issued on the First Time of Delivery upon conversion of all of the shares of Preferred Stock) have been duly and validly authorized and issued and are fully paid and non-assessable; and the Shares conform to the description of the Stock contained in the Prospectus;

(iii) The Company has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification or is subject to no material liability or disability by reason of failure to be so qualified in any such jurisdiction (such counsel being entitled to rely in respect of the opinion in this clause upon opinions of local counsel and in respect of matters of fact upon certificates of officers of the Company, provided that such counsel shall state that they believe that both you and they are justified in relying upon such opinions and certificates);

(iv) BeSeen has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation; and all of the issued shares of capital stock of BeSeen has been duly and validly authorized and issued, are fully paid and non-assessable, and (except for directors' qualifying shares) are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims (such counsel being entitled to rely in respect of the opinion in this clause upon opinions of local counsel and in respect to matters of fact upon certificates of officers of the Company or BeSeen, provided that such counsel shall state that they believe that both you and they are justified in relying upon such opinions and certificates);

(v) To such counsel's knowledge and other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the current consolidated financial position, stockholders' equity or results of operations of the Company and its subsidiaries; and, to such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(vi) This Agreement has been duly authorized, executed and delivered by the Company;

(vii) The issue and sale of the Shares being delivered at such Time of Delivery by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any material indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or BeSeen is a party or by which the Company or BeSeen is bound or to which any of the property or assets of the Company or BeSeen is subject, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company or any statute or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over the Company or BeSeen or any of their properties;

- (viii) No consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Act of the Shares, and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters;
- (ix) Neither the Company nor BeSeen is in violation of its Certificate of Incorporation or By-laws or, to such counsel's knowledge, in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound;
- (x) The statements set forth in the Prospectus under the caption "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Stock, and insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate and complete;
- (xi) The Company is not an "investment company", as such term is defined in the Investment Company Act;
- (xii) To such counsel's knowledge, no holder of any security of the Company has the right, not effectively satisfied or waived, to require inclusion of any shares of Stock or any other security in the Registration Statement; and
- (xiii) The Registration Statement and the Prospectus and any further amendments and supplements thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act and the rules and regulations thereunder; although they do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus, except for those referred to in the opinion in subsection (xi) of this section 7(c), they have no reason to believe that, as of its effective date, the Registration Statement or any further amendment thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that,

as of its date, the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or that, as of such Time of Delivery, either the Registration Statement or the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and they do not know of any amendment to the Registration Statement required to be filed or of any contracts or other documents of a character required to be filed as an exhibit to the Registration Statement or required to be described in the Registration Statement or the Prospectus that are not filed or described as required;

(d) On the date of the Prospectus at a time prior to the execution of this Agreement, at 9:30 a.m., New York City time, on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and also at each Time of Delivery, PricewaterhouseCoopers LLP shall have furnished to you a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to you, to the effect set forth in Annex I hereto (the executed copy of the letter delivered prior to the execution of this Agreement is attached as Annex I(a) hereto and a draft of the form of letter to be delivered on the effective date of any post-effective amendment to the Registration Statement and as of each Time of Delivery is attached as Annex I(b) hereto);

(e) (i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus, and (ii) since the respective dates as of which information is given in the Prospectus there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries (except changes occurring as a result of the exercise of warrants or stock options issued prior to the date of this agreement) or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(f) On or after the date hereof there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange or on NASDAQ; (ii) a suspension or material limitation in trading in the Company's securities on NASDAQ; (iii) a general moratorium on commercial banking activities declared by either Federal or New York or California State authorities;

or
(iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, if the effect of any such event specified in this clause (iv) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(g) The Shares to be sold at such Time of Delivery shall have been duly listed for quotation on NASDAQ;

(h) The Company has obtained and delivered to the Underwriters executed copies of an agreement from the directors and executive officers of the Company, and from the stockholders of the Company listed in Schedule II hereto, substantially to the effect set forth in Subsection 5(e) hereof in form and substance satisfactory to you;

(i) The Company shall have complied with the provisions of Section

5(c) hereof with respect to the furnishing of prospectuses on the New York Business Day next succeeding the date of this Agreement; and

(j) The Company shall have furnished or caused to be furnished to you at such Time of Delivery certificates of officers of the Company satisfactory to you as to the accuracy of the representations and warranties of the Company herein at and as of such Time of Delivery, as to the performance by the Company of all of its obligations hereunder to be performed at or prior to such Time of Delivery, as to the matters set forth in subsections (a) and (f) of this Section and as to such other matters as you may reasonably request.

8. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Goldman, Sachs & Co. expressly for use therein.

(b) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Goldman, Sachs & Co. expressly for use therein; and will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

- (c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.
- (d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by

the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company under this Section 8 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 8 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company within the meaning of the Act.

9. (a) If any Underwriter shall default in its obligation to purchase the Shares which it has agreed to purchase hereunder at a Time of Delivery, you may in your discretion arrange for you or another party or other parties to purchase such Shares on the terms contained herein. If within 36 hours after such default by any Underwriter you do not arrange for the purchase of such Shares, then the Company shall be entitled to a further period of 36 hours within which to procure another party or other parties satisfactory to you to purchase such Shares on such terms. In the event that, within the respective prescribed periods, you notify the Company that you have so arranged for the purchase of such Shares, or the Company notifies you that it has so arranged for the purchase of such Shares, you or the Company shall have the right to postpone such Time of Delivery for a period of not more than seven days, in order to effect whatever changes may

thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased does not exceed one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, then the Company shall have the right to require each non-defaulting Underwriter to purchase the number of shares which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased exceeds one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, or if the Company shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Shares of a defaulting Underwriter or Underwriters, then this Agreement (or, with respect to the Second Time of Delivery, the obligations of the Underwriters to purchase and of the Company to sell the Optional Shares) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company, except for the expenses to be borne by the Company and the Underwriters as provided in Section 6 hereof and the indemnity and contribution agreements in Section 8 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. The respective indemnities, agreements, representations, warranties and other statements of the Company and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or any officer or director or controlling person of the Company, and shall survive delivery of and payment for the Shares.

11. If this Agreement shall be terminated pursuant to Section 9 hereof, the Company shall not then be under any liability to any Underwriter except as provided in Sections 6 and 8

hereof; but, if for any other reason, any Shares are not delivered by or on behalf of the Company as provided herein, the Company will reimburse the Underwriters through you for all out-of-pocket expenses approved in writing by you, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Shares not so delivered, but the Company shall then be under no further liability to any Underwriter except as provided in Sections 6 and 8 hereof.

12. In all dealings hereunder, you shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by you jointly or by Goldman, Sachs & Co. on behalf of you as the representatives.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to you as the representatives in care of Goldman, Sachs & Co., 32 Old Slip, 21st Floor, New York, New York 10005, Attention: Registration Department; and if to the Company shall be delivered or sent by mail to the address of the Company set forth in the Registration Statement, Attention: Secretary; provided, however, that any notice to an Underwriter pursuant to Section 8(c) hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriters' Questionnaire, or telex constituting such Questionnaire, which address will be supplied to the Company by you upon request. Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

13. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and, to the extent provided in Sections 8 and 10 hereof, the officers and directors of the Company and each person who controls the Company or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

14. Time shall be of the essence of this Agreement. As used herein, the term "business day" shall mean any day when the Commission's office in Washington, D.C. is open for business.

15. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

16. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding, please sign and return to us five counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement between each of the Underwriters and the Company. It is understood that your acceptance of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, the form of which shall be submitted to the Company for examination upon request, but without warranty on your part as to the authority of the signers thereof.

Very truly yours,

LookSmart, Ltd.

By:

Name:

Title:

Accepted as of the date hereof:

Goldman, Sachs & Co.
BancBoston Robertson Stephens Inc.
Hambrecht & Quist LLC

By:

(Goldman, Sachs & Co.)

On behalf of each of the Underwriters

SCHEDULE I

| to | Total Number of Firm Shares to be Purchased | Number of Optional Shares be Purchased if Maximum Option Exercised |
|---|---|--|
| Underwriter | | |
| ----- Goldman, Sachs & Co. BancBoston Robertson Stephens Inc. .. Hambrecht & Quist LLC..... [Names of other Underwriters]..... | ----- ----- | |
| ----- Total..... | | |

SCHEDULE II

Stockholders Furnishing Lock-Up Agreements

ANNEX I

Pursuant to Section 7(d) of the Underwriting Agreement, the accountants shall furnish letters to the Underwriters to the effect that:

- (i) They are independent certified public accountants with respect to the Company and its subsidiaries within the meaning of the Act and the applicable published rules and regulations thereunder;
- (ii) In their opinion, the financial statements and any supplementary financial information and schedules (and, if applicable, financial forecasts and/or pro forma financial information) examined by them and included in the Prospectus or the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited consolidated interim financial statements, selected financial data, pro forma financial information, financial forecasts and/or condensed financial statements derived from audited financial statements of the Company for the periods specified in such letter, as indicated in their reports thereon, copies of which have been separately furnished to the representatives of the Underwriters (the "Representatives") and are attached hereto;
- (iii) They have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus as indicated in their reports thereon copies of which have been separately furnished to the Representatives and are attached hereto and on the basis of specified procedures including inquiries of officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited condensed consolidated financial statements referred to in paragraph (vi)(A)(i) below comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations, nothing came to their attention that cause them to believe that the unaudited condensed consolidated financial statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations;
- (iv) The unaudited selected financial information with respect to the consolidated results of operations and financial position of the Company for the four most recent fiscal years included in the Prospectus agrees with the corresponding amounts in the audited consolidated financial statements for such five fiscal years appearing elsewhere in the Prospectus;
- (v) They have compared the information in the Prospectus under selected captions with the disclosure requirements of Regulation S-K and on the basis of limited procedures specified in such letter nothing came to their attention as a result of the foregoing procedures that caused

them to believe that this information does not conform in all material respects with the disclosure requirements of Items 301, 302, 402 and 503(d), respectively, of Regulation S-K;

(vi) On the basis of limited procedures, not constituting an examination in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company and its subsidiaries, inspection of the minute books of the Company and its subsidiaries since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) (i) the unaudited consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations, or (ii) any material modifications should be made to the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus for them to be in conformity with generally accepted accounting principles;

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited consolidated financial statements included in the Prospectus;

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived any unaudited condensed financial statements referred to in clause (A) and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in clause (B) were not determined on a basis substantially consistent with the basis for the audited consolidated financial statements included in the Prospectus;

(D) any unaudited pro forma consolidated condensed financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock (other than issuances of capital stock upon exercise of options and upon conversions of convertible securities, in

each case which were outstanding on the date of the latest financial statements included in the Prospectus) or any increase in the consolidated long-term debt of the Company and its subsidiaries, or any decreases in consolidated net current assets or stockholders' equity or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(F) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in clause (E) there were any decreases in consolidated net revenues or operating profit or the total or per share amounts of consolidated net income or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Representatives, except in each case for decreases or increases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(vii) In addition to the examination referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraphs (iii) and (vi) above, they have carried out certain specified procedures, not constituting an examination in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Representatives, which are derived from the general accounting records of the Company and its subsidiaries, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and its subsidiaries and have found them to be in agreement.

EXHIBIT 3.1

RESTATED CERTIFICATE OF INCORPORATION

OF

Looksmart, Ltd.

A Delaware Corporation

The undersigned, Evan Thornley and Henry V. Barry, hereby certify that:

1. They are the duly elected and acting Chief Executive Officer and Secretary, respectively, of LookSmart, Ltd., a Delaware corporation, the original Certificate of Incorporation of which was filed with the Secretary of the State of Delaware on July 19, 1996, under the name of NetGet, Ltd.

2. The Certificate of Incorporation of this corporation is hereby amended and restated in its entirety to read as follows:

"FIRST: The name of the Corporation is LookSmart, Ltd. (the "Corporation").

SECOND: The address of the Corporation's registered office in the State of Delaware is 1013 Centre Road, in the City of Wilmington, County of New Castle, Delaware 19805. The name of its registered agent at such address is Corporate Agents, Inc.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: This Corporation is authorized to issue two classes of shares designated, respectively, Common Stock and Preferred Stock. The total number of shares of stock which the Corporation shall have the authority to issue is 200,000,000 of which 155,194,302 shares shall be designated "Common Stock", \$0.001 par value per share, and 44,805,698 shares shall be designated "Preferred Stock", \$0.001 par value per share. The Preferred Stock shall be issued in four series, of which 11,887,950 shares shall be designated "Series A Preferred Stock" (the "Series A Preferred"), 14,327,748 shares shall be designated "Series B Preferred Stock" (the "Series B Preferred") and 12,590,000 shares shall be designated "Series C Preferred Stock" (the "Series C Preferred") and together with the Series A Preferred and the Series B Preferred, (the "Senior Preferred Stock"), and 6,000,000 shares shall be designated as the "Series 1 Junior Preferred Stock" (the "Junior Preferred Stock," and together with the Senior Preferred Stock the "Preferred Stock").

Upon amendment of this article to read as herein set forth, each two currently outstanding shares of Common Stock, Series A Preferred, Series B Preferred, Series C and Junior Preferred Stock shall be converted into or reconstituted as three (3) shares of Common Stock, Series A Preferred, Series B Preferred, Series C Preferred and Junior Preferred Stock, as the case may be. No fractional shares of Common Stock shall be issued upon such stock split; any fractional shares resulting from the stock split shall be rounded down to the nearest whole share on a certificate by certificate basis.

The relative rights, preferences, privileges and restrictions granted to or imposed on the respective classes of the shares of capital stock or the holders thereof are as follows:

1. Dividends.

(a) The Corporation shall not declare or pay any dividends or other distributions (as defined below) on shares of any series of Senior Preferred Stock unless the holders of all other series of Senior Preferred Stock then outstanding receive a dividend on each outstanding share of Senior Preferred Stock on a pari passu basis relative to the Original Issue Price of each series of Senior Preferred Stock. The Corporation shall not declare or pay any dividends or other distributions (as defined below) on shares of Common Stock unless the holders of the Preferred Stock then outstanding shall simultaneously receive a dividend on each outstanding share of Preferred Stock in an amount equal to the product of (i) the per share amount, if any, of the dividends or other distributions to be declared, paid or set aside for the Common Stock, multiplied by (ii) the number of whole shares of Common Stock into which such share of Preferred Stock is then convertible.

(b) For purposes of this Section 1, unless the context requires otherwise, "distribution" shall mean the transfer of cash or property without consideration, whether by way of dividend or otherwise, payable other than in Common Stock or other securities of the Corporation, or the purchase or redemption of shares of the Corporation (other than repurchases of Common Stock held by employees or directors of, consultants to, the Corporation upon termination of their employment or services pursuant to agreements providing for such repurchase at a price equal to the original issue price of such shares and other than redemptions in liquidation or dissolution of the Corporation) for cash or property, including any such transfer, purchase or redemption by a subsidiary of this Corporation.

2. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, the holders of Senior Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Junior Preferred and Common Stock by reason of their ownership thereof, an amount equal to the sum of (i) the Original Issue Price for each such series of Preferred Stock (as adjusted for stock splits, combinations, stock dividends or other recapitalizations with respect to such series of Preferred Stock); and, (ii) an amount equal to all declared but unpaid dividends on such Senior Preferred Stock. The "Original Issue Price" shall mean \$0.35625 per share for the Series A Preferred, \$0.41911 per share for the Series B Preferred, and \$5.00 per share for the Series C Preferred. The aggregate amount payable to each holder shall be rounded to the nearest whole cent. If, upon occurrence of such event the assets and funds thus distributed among the holders of the Senior Preferred Stock shall be insufficient to permit the payment to such holders of the full preferential amount to which they respectively shall be entitled pursuant to this Section 2(a), then the entire assets and funds of the Corporation legally available for distribution shall be distributed pro rata among the holders of the Senior Preferred Stock in proportion to the respective amounts which

would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(b) After payment has been made to the holders of the Senior Preferred Stock of the full amounts to which they shall be entitled pursuant to Section 2(a) above, the holders of the Junior Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Common Stock by reason of their ownership thereof, an amount equal to the sum of (i) \$0.33333 per share of Junior Preferred Stock (as adjusted for stock splits, combinations, stock dividends or other recapitalizations); and, (ii) an amount equal to all declared but unpaid dividends on each such share. The aggregate amount payable to each holder shall be rounded to the nearest whole cent. If, upon occurrence of such event, and following satisfaction of the liquidation preferences of the Senior Preferred Stock set forth in Section 2(a) above, the assets and funds thus distributed among the holders of the Junior Preferred Stock shall be insufficient to permit the payment to such holders of the full preferential amount to which they respectively shall be entitled pursuant to this Section 2(b), then the entire assets and funds of the Corporation legally available for distribution shall be distributed pro rata among the holders of the Junior Preferred Stock in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(c) After payment has been made to the holders of the Preferred Stock of the full amounts to which they shall be entitled pursuant to Section 2(a) and 2(b) above, all remaining assets of the Corporation shall be distributed pro rata among all holders of Series A Preferred, Series B Preferred, Series C Preferred and Common Stock based on the number of shares of Common Stock which would be held by each such holder if all shares of Series A Preferred, Series B Preferred and Series C Preferred were converted into Common Stock at the then effective Conversion Price (as defined in Section 3(a) below) until (i) with respect to the holders of Series A Preferred, such holders have received an amount equal to \$0.89061 per share as adjusted for stock splits, combinations, stock dividends, recapitalizations and the like (including amounts previously paid pursuant to Section 2(a) above), (ii) with respect to the holders of Series B Preferred, such holders have received an amount equal to \$1.04778 per share as adjusted for stock splits, combinations, stock dividends, recapitalizations and the like (including amounts previously paid pursuant to Section 2(a) above), and (iii) with respect to the holders of Series C Preferred, such holders have received an amount equal to \$7.50 per share as adjusted for stock splits, combinations, stock dividends, recapitalizations and the like (including amounts previously paid pursuant to Section 2(a) above). Thereafter, all remaining assets shall be distributed pro rata among the holders of Common Stock.

(d) The holders of Preferred Stock shall not be entitled to convert shares of Preferred Stock into shares of Common Stock in order to participate in any distribution, or series of distributions, as holders of Common Stock, without first foregoing participation in the distribution, or series of distribution, as holders of such shares of Preferred Stock.

(e) For purposes of this Section 2, a liquidation, dissolution or winding up of the Corporation shall be deemed to be occasioned by, and to include, (i) the Corporation's sale of all or substantially all of its assets, or (ii) any transaction or series of related transactions (including, but not limited to, any consolidation, merger or reorganization) which will result in the holders of the outstanding voting equity securities of the Corporation immediately prior to such transaction holding less than fifty percent (50%) of the voting equity securities of the surviving entity immediately following such transaction.

(f) For purposes of this Section 2, the amount of assets and/or proceeds available for distribution upon a liquidation, dissolution or winding up of this Corporation shall be determined as follows:

(i) insofar as such assets or proceeds consist of cash, the amount shall be computed at the aggregate amount of cash held by this Corporation or payable to the stockholders at the time of the liquidation, dissolution or winding up, excluding amounts paid or payable for accrued interest or accrued dividends; and

(ii) insofar as it consists of securities, (A) if the securities are then traded on a national securities exchange or the NASDAQ Stock Market (or a similar national quotation system), then the value shall be computed based on the closing price on such exchange or system at the time of the liquidation, dissolution or winding up, (B) if the securities are actively traded over-the-counter, then the value shall be computed based on the closing price at the time of the liquidation, dissolution or winding up, and (C) if there is no public market for the securities, then the value shall be computed based on the fair market value thereof, as determined in good faith by the Board of Directors of the Corporation (the "Board") at the time of liquidation, dissolution or winding up; and

(iii) insofar as it consists of property other than cash or securities, the amount shall be computed at the fair value thereof at the time of the liquidation, dissolution or winding up, as determined in good faith by the Board.

3. Conversion. The holders of the Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) Right to Convert; Automatic Conversion. Each share of Preferred Stock shall be convertible, at the option of the holder thereof, at any time into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing either (i) \$0.35625 for the Series A Preferred, (ii) \$0.41911 for the Series B Preferred, (iii) \$0.58333 for the Junior Preferred Stock, or (iv) \$5.00 for the Series C Preferred by the Conversion Price (as defined hereinafter) per share in effect for each series of Preferred Stock at the time of conversion.

The respective Conversion Price per share for each series of Preferred Stock shall initially be the Original Issue Price for such series of Preferred Stock. The Original Issue Price

for the Junior Preferred Stock is \$0.58333. Such initial Conversion Prices shall be subject to adjustment as hereinafter provided.

Each share of Preferred Stock shall automatically be converted into shares of Common Stock at the then effective Conversion Price upon the earlier of (i) with respect to each series of Preferred Stock, the election to effect such conversion by the holders of at least 50% of the applicable series of Preferred Stock, or (ii) immediately upon the effectiveness of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Corporation to the public at a price per share in such offering that results in total gross proceeds to the Company of at least \$25,000,000. In the event of such an offering, the person(s) entitled to receive the Common Stock issuable upon such conversion of Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such underwritten public offering.

(b) Mechanics of Conversion. No fractional shares of Common Stock shall be issued upon conversion of Preferred Stock. In lieu of any fractional share to which a holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the fair market value of the Common Stock as determined in good faith by the Board of Directors. Before any holder of Preferred Stock shall be entitled to convert the same into full shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Preferred Stock, and shall give written notice to the Corporation at such office that he elects to convert the same. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he shall be entitled as aforesaid and a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into a fractional share of Common Stock. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date. If the conversion is in connection with an underwritten public offering of securities registered pursuant to the Securities Act of 1933, as amended, the conversion shall be conditioned upon the closing of such public offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of the Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to such closing.

(c) Adjustments to Conversion Price for Diluting Issues.

(i) Special Definitions. For purposes of this Section 3, the following definitions shall apply:

(1) "Options" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible Securities.

(2) "Convertible Securities" shall mean any evidences of indebtedness, shares (other than Common Stock and Preferred Stock) or other securities convertible into or exchangeable for Common Stock.

(3) "Original Issue Date" shall mean the date on which the first share of the applicable series of Preferred Stock was first issued.

(4) "Additional Shares of Common Stock" shall mean all shares of Common Stock (i) issued (or, pursuant to paragraph 3(c)(iii), deemed to be issued) by the Corporation after the Original Issue Date, or (ii) sold or exchanged by the Corporation in conjunction with an acquisition of the Corporation after the Original Issue Date, other than shares of Common Stock issued or issuable:

(A) upon conversion of shares of Series A Preferred, Series B Preferred, Junior Preferred Stock or Series C Preferred;

(B) to employees, officers or directors of, or consultants to, the Corporation pursuant to a stock grant, option plan, purchase plan or other employee stock incentive program (collectively, the "Plans") or any other agreement so long as any such Plans or agreement are unanimously approved by the Board of Directors;

(C) as a dividend or distribution on Series A Preferred, Series B Preferred, Junior Preferred Stock or Series C Preferred;

(D) up to 4,350,000 shares issued in connection with equipment lease financing transactions, bank financing transactions, strategic alliances or licensing agreements approved by the Board of Directors, where the issuance of such shares is not principally for the purpose of raising additional equity capital for the Corporation;

(E) securities issued in connection with any acquisition, merger or similar transaction;

(F) by way of dividend or other distribution on shares of Common Stock excluded from the definition of Additional Shares of Common Stock by the foregoing clauses (A), (B), (C), (D) and (E) or on shares of Common Stock so excluded;

(ii) No Adjustment of Conversion Price: No adjustment in the Conversion Price of a series of Preferred Stock shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Conversion Price in effect on the date of, and immediately prior to such issue, for such share of Preferred Stock.

(iii) Deemed Issue of Additional Shares of Common Stock.

(1) Options and Convertible Securities. In the event the Corporation at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to Section 3(c)(v) hereof) of such Additional Shares of Common Stock would be less than the Conversion Price in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided further that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(A) no further adjustment in the Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Corporation, or decrease in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities; and

(C) on the expiration or cancellation of any Options or the termination of the right to convert or exchange any Convertible Securities which shall have not been exercised, if the Conversion Price shall have been adjusted upon the original issuance thereof or shall have been subsequently adjusted pursuant to clause (B) above, the Conversion Price shall be recomputed as if:

(1) in the case of Convertible Securities or Options for Common Stock, the only Additional Shares of Common Stock issued were shares of Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities, and the consideration received therefor was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the

issue of all such Convertible Securities which were actually converted or exchanged plus the consideration actually received by the Corporation upon such conversion or exchange, if any, and

(2) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options and the consideration received by the Corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Corporation upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

(D) no readjustment pursuant to clause (B) or (C) above shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (i) the Conversion Price on the original adjustment date, or (ii) the Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iv) Adjustment of Conversion Price Upon Issuance of

Additional Shares of Common Stock. In the event this Corporation shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 3(c)(iii)) without consideration or for a consideration per share less than the Conversion Price of any series of Preferred Stock in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price of the Preferred Stock shall be reduced, concurrently with such issuance (A) with respect to each such series of Preferred Stock, to a price (calculated to the nearest cent) determined by multiplying each such Conversion Price by a fraction, (x) the numerator of which shall be the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue, plus (2) the number of shares of Common Stock which the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at such Conversion Price; and (y) the denominator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issue, plus (2) the number of such Additional Shares of Common Stock so issued; and provided further that, for the purposes of this Section 3(c)(iv), all shares of Common Stock issuable (i) upon conversion of all outstanding Preferred Stock, (ii) upon conversion of all outstanding Convertible Securities, and (iii) upon exercise of all outstanding Options, shall be deemed to be outstanding, and immediately after any Additional Shares of Common Stock are deemed issued pursuant to Section 3(c)(iii), such Additional Shares of Common Stock shall be deemed to be outstanding, and (B) notwithstanding the above, with respect to the Series C Preferred, to a price equal to the consideration per share for which such Additional Shares of Common Stock are issued; provided, however, that (x) the Conversion Price for the Series C Preferred shall be reduced only until it is equal to a per share price that when multiplied by all of the shares of Common Stock of the Corporation outstanding (including any shares of Common Stock issuable upon conversion of all outstanding Preferred Stock and Convertible Securities and upon exercise of all outstanding Options) immediately prior to the issuance of such Additional Shares of Common Stock, is equal to \$240,000,000, and (y) the provisions of this Section 3(c)(iv)(B) shall only apply until the closing of a firmly underwritten

public offering of shares of Common Stock at a price that results in gross proceeds to the Corporation of at least \$25,000,000. If such Additional Shares of Common Stock are issued for no consideration, then the consideration per share shall be deemed to be \$0.001.

(v) Determination of Consideration. For purposes of this Section 3(c), the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(1) Cash and Property. Such consideration shall:

(A) insofar as it consists of cash, be computed as the aggregate amount of cash received by the Corporation;

(B) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(C) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board of Directors.

(2) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section 3(c)(iii), relating to Options and Convertible Securities, shall be determined by dividing

(x) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by

(y) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(d) Adjustments for Stock Dividends, Subdivisions, Combinations,

or Consolidations. In the event the Corporation shall pay a stock dividend on the Common Stock, or the outstanding shares of Common Stock shall be subdivided, combined or consolidated, by reclassification, stock split or otherwise, into a greater or lesser number of shares of Common Stock,

the Conversion Price for each series of Preferred Stock in effect immediately prior to such dividend, subdivision, combination or consolidation shall, concurrently with the effectiveness of such dividend, subdivision, combination or consolidation, be proportionately decreased or increased, as appropriate.

(e) No Impairment. The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation but will at all times in good faith assist in the carrying out of all the provisions of this Section 3 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Preferred Stock against impairment.

(f) Notices of Record Date. In the event that this Corporation shall propose at any time:

(i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;

(ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights;

(iii) to effect any reclassification or recapitalization of its Common Stock outstanding involving a change in the Common Stock; or

(iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all its property or business, or to liquidate, dissolve or wind up;

then, in connection with each such event, this Corporation shall send to the holders of the Preferred Stock:

(1) at least twenty (20) days' prior written notice of the terms of such contemplated action and the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in (iii) and (iv) above; and

(2) in the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days' prior written notice of the date when the same shall take place and the terms of such contemplated transaction (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event).

Each such written notice shall be given by first class mail, postage prepaid, addressed to the holders of Preferred Stock at the address for each such holder as shown on the books of this Corporation.

4. Voting Rights and Directors.

(a) General. Except as otherwise expressly provided herein or as required by law and as provided in paragraph (b) below, the holders of Series A Preferred, Series B Preferred, Series C Preferred, Junior Preferred Stock and the holders of Common Stock shall be entitled to notice of any stockholders' meeting and to vote as a single class upon any matter submitted to the stockholders for a vote, as follows: (i) each holder of Preferred Stock shall have one vote for each full share of Common Stock into which its respective shares of Preferred Stock would be convertible on the record date for the vote, and (ii) each holder of Common Stock will have one vote per share of Common Stock.

(b) Number of Directors and Voting for Directors. For so long as more than 1,050,000 shares of Series A Preferred are outstanding (as adjusted for stock splits, reverse splits, recapitalizations or similar event), the holders of shares of Series A Preferred, voting as a class, shall be entitled to elect one (1) director. For so long as more than 1,500,000 shares of Series B Preferred are outstanding (as adjusted for stock splits, reverse splits, recapitalizations or similar event) the holders of shares of Series B Preferred, voting as a class, shall be entitled to elect two (2) directors. For so long as more than 1,500,000 shares of Series C Preferred are outstanding (as adjusted for stock splits, reverse splits, recapitalizations or similar event) the holders of shares of Series C Preferred, voting as a class, shall be entitled to elect one (1) director; provided, however, the holders of shares of Series C Preferred shall only be entitled to such right until the closing of a firmly underwritten public offering of shares of Common Stock at a price that results in gross proceeds to the Corporation of at least \$25,000,000. For so long as shares of Junior Preferred Stock remain outstanding, the holders of shares of Common Stock and Junior Preferred Stock voting as a class shall be entitled to elect two (2) directors. Any remaining directors shall be elected by the holders of the Preferred Stock and the holders of Common Stock, voting as provided in

Section 4(a) above. In the case of a vacancy on the Board of Directors of the Corporation caused by the death, resignation or removal of a director elected by a particular class or series of stock, such vacancy shall be filled by a director elected by the affirmative vote of a majority of the outstanding shares of such class or series of Preferred Stock or Common Stock, as the case may be, given at a special meeting of stockholders duly called or by an action by written consent for that purpose. Any director elected by the holders of a particular class or series of stock may be removed during such director's term of office, either for or without cause, by and only by the affirmative vote of the holders of a majority of the outstanding shares of such class or series of stock given at a special meeting of stockholders duly called or by an action by written consent for that purpose.

5. Protective Provisions. In addition to any other rights provided by law, for so long as at least 3,000,000 shares of Preferred Stock shall be outstanding (as adjusted for stock splits, combinations, stock dividends, recapitalizations and the like), this Corporation shall not without first

obtaining the affirmative vote or written consent of the holders of a majority of the outstanding shares of Senior Preferred Stock, voting as a single class on an as-converted basis:

(a) amend or repeal any provision of, or add any provision to, this Corporation's Certificate of Incorporation or Bylaws if such action would adversely alter or change the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, the Preferred Stock; provided, however, that in the event any such amendment or repeal would adversely affect one series of the Preferred Stock but would not so affect the entire class of Preferred Stock, then the Corporation shall obtain the affirmative vote or written consent of the holders of a majority of the outstanding shares of such affected series of Preferred Stock, voting separately as a single class.

(b) authorize or issue shares of any class or series of stock on parity with or which has a preference over any series of the Senior Preferred Stock;

(c) declare or pay any dividends on shares other than the Preferred Stock;

(d) redeem or purchase any of the Preferred Stock or Common Stock, provided, however, that this restriction shall not apply to the repurchase of any unvested shares of Common Stock at cost (unless a repurchase price other than cost is unanimously approved by the Board of Directors) from employees, officers, directors, consultants or other persons performing services for the Corporation upon the termination of the employment, consulting or other relationship between the Corporation and such persons;

(e) consummate a sale of all or substantially all of the Corporation's assets or any transaction or series of related transactions (including, but not limited to, any consolidation, merger or reorganization) which will result in the holders of the outstanding voting equity securities of the Corporation immediately prior to such transaction holding less than fifty percent (50%) of the voting equity securities of the surviving entity immediately following such transaction;

(f) increase or decrease the number of authorized shares of Preferred Stock; and

(g) incur or prepay, or have any subsidiaries incur or prepay, any indebtedness in excess of \$10,000,000.

6. Junior Preferred Protective Provision. For so long as shares of Junior Preferred Stock remain outstanding, without the Corporation first obtaining the affirmative vote or written consent of the holders of a majority of the Junior Preferred Stock, voting separately as a single class, the Corporation shall not authorize or issue shares of a new class or series of securities with rights, preferences, and privileges that are junior to the Senior Preferred Stock, but senior to the Junior Preferred Stock.

7. Status of Converted Stock. In the event any shares of Preferred Stock shall be converted pursuant to Section 3 hereof, the shares so converted shall be canceled and shall not be issuable by the Corporation, and the Certificate of Incorporation of this Corporation shall be

appropriately amended to effect the corresponding reduction in the Corporation's authorized capital stock.

FIFTH: The Corporation is to have perpetual existence.

SIXTH: Elections of directors need not be by written ballot unless a stockholder demands election by written ballot at the meeting and before voting begins or unless the Bylaws of the Corporation provide otherwise.

SEVENTH: The number of directors that constitute the whole Board of Directors of the Corporation shall be designated in the Bylaws of the Corporation.

EIGHTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Bylaws of the Corporation.

NINTH: (a) To the fullest extent permitted by the Delaware General Corporation Law as the same exists or as it may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

(b) The Corporation may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that she or he or her or his testator or intestate is or was a director, officer or employee of the Corporation or any predecessor of the Corporation or serves or served at any other enterprise as a director, officer or employee at the request of the Corporation or any predecessor to the Corporation.

(c) Neither any amendment nor repeal of this Article NINTH, nor the adoption of any provision of this Corporation's Certificate of Incorporation inconsistent with this Article NINTH, shall eliminate or reduce the effect of this Article NINTH, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article NINTH, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision, except as required by law.

TENTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

ELEVENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation."

3. The foregoing Restated Certificate of Incorporation has been duly adopted in accordance with Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware.

The undersigned declares under penalty of perjury that the matters set forth in the foregoing certificate are true of his own knowledge.

IN WITNESS WHEREOF, the undersigned has executed this Restated Certificate of Incorporation on this 22nd day of July, 1999.

/s/ EVAN THORNLEY

Evan Thornley, Chief Executive Officer

Attest By: */s/ HENRY V. BARRY*

Henry V. Barry, Secretary

EXHIBIT 3.2

RESTATED CERTIFICATE OF INCORPORATION

OF

LOOKSMART, LTD.

LookSmart, Ltd., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

A. The name of the corporation is LookSmart, Ltd. The corporation was originally incorporated under the name of NetGet Ltd., and the original Certificate of Incorporation was filed with the Secretary of the State of Delaware on July 19, 1996.

B. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, this Restated Certificate of Incorporation restates and amends the provisions of the Certificate of Incorporation of the corporation.

C. The text of the Certificate of Incorporation is hereby amended and restated in its entirety to read as follows:

ARTICLE I

The name of this corporation is LookSmart, Ltd.

ARTICLE II

The address of the corporation's registered office in the State of Delaware is 1013 Centre Road, in the City of Wilmington, County of New Castle, Delaware 19805. The name of its registered agent at such address is Corporate Agents, Inc.

ARTICLE III

The purpose of the corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware.

ARTICLE IV

The corporation is authorized to issue two classes of shares of stock to be designated, respectively, Common Stock, \$0.001 par value, and Preferred Stock, \$0.001 par value. The total number of shares that the corporation is authorized to issue is 205,000,000 shares. The number of shares of Common Stock authorized

is 200,000,000. The number of shares of Preferred authorized is 5,000,000.

The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the board of directors (authority to do so being hereby expressly vested in the board). The board of directors is further authorized to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and to fix the number of shares of any series of Preferred Stock and the designation of any such series of Preferred Stock. The board of directors, within the limits and restrictions stated in any resolution or resolutions of the board of directors originally fixing the number of shares constituting any series, may increase or decrease (but not below the number of shares in any such series then outstanding) the number of shares of any series subsequent to the issue of shares of that series.

The authority of the board of directors with respect to each such class or series shall include, without limitation of the foregoing, the right to determine and fix:

- (a) the distinctive designation of such class or series and the number of shares to constitute such class or series;
- (b) the rate at which dividends on the shares of such class or series shall be declared and paid, or set aside for payment, whether dividends at the rate so determined shall be cumulative or accruing, and whether the shares of such class or series shall be entitled to any participating or other dividends in addition to dividends at the rate so determined, and if so, on what terms;
- (c) the right or obligation, if any, of the corporation to redeem shares of the particular class or series of Preferred Stock and, if redeemable, the price, terms and manner of such redemption;
- (d) the special and relative rights and preferences, if any, and the amount or amounts per share, which the shares of such class or series of Preferred Stock shall be entitled to receive upon any voluntary or involuntary liquidation, dissolution or winding up of the corporation;
- (e) the terms and conditions, if any, upon which shares of such class or series shall be convertible into, or exchangeable for, shares of capital stock of any other class or series, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;
- (f) the obligation, if any, of the corporation to retire, redeem or purchase shares of such class or series pursuant to a sinking fund or fund of a similar nature or otherwise, and the terms and conditions of such obligation;

(g) voting rights, if any, on the issuance of additional shares of such class or series or any shares of any other class or series of Preferred Stock;

(h) limitations, if any, on the issuance of additional shares of such class or series or any shares of any other class or series of Preferred Stock;
and

(i) such other preferences, powers, qualifications, special or relative rights and privileges thereof as the board of directors of the corporation, acting in accordance with this Restated Certificate of Incorporation, may deem advisable and are not inconsistent with law and the provisions of this Restated Certificate of Incorporation.

ARTICLE V

The corporation reserves the right to amend, alter, change, or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon the stockholders herein are granted subject to this right.

ARTICLE VI

The corporation is to have perpetual existence.

ARTICLE VII

1. **Limitation of Liability.** To the fullest extent permitted by the General Corporation Law of the State of Delaware as the same exists or as may hereafter be amended, a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

2. **Indemnification.** The corporation may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person or his or her testator or intestate is or was a director, officer or employee of the corporation, or any predecessor of the corporation, or serves or served at any other enterprise as a director, officer or employee at the request of the corporation or any predecessor to the corporation.

3. **Amendments.** Neither any amendment nor repeal of this Article VII, nor the adoption of any provision of the corporation's Certificate of Incorporation inconsistent with this Article VII, shall eliminate or reduce the effect of this Article VII, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article VII, would accrue or arise, prior to such amendment, repeal, or adoption of an inconsistent provision.

ARTICLE VIII

In the event any shares of Preferred Stock shall be redeemed or converted pursuant to the terms hereof, the shares so converted or redeemed shall not revert to the status of authorized but unissued shares, but instead shall be canceled and shall not be re-issuable by the corporation.

ARTICLE IX

Holders of stock of any class or series of the corporation shall not be entitled to cumulate their votes for the election of directors or any other matter submitted to a vote of the stockholders, unless such cumulative voting is required pursuant to Sections 2115 or 301.5 of the California General Corporation Law, in which event each such holder shall be entitled to as many votes as shall equal the number of votes which (except for this provision as to cumulative voting) such holder would be entitled to cast for the election of directors with respect to his shares of stock multiplied by the number of directors to be elected by him, and the holder may cast all of such votes for a single director or may distribute them among the number of directors to be voted for, or for any two or more of them as such holder may see fit, so long as the name of the candidate for director shall have been placed in nomination prior to the voting and the stockholder, or any other holder of the same class or series of stock, has given notice at the meeting prior to the voting of the intention to cumulate votes.

1. Number of Directors. The number of directors which constitutes the whole Board of Directors of the corporation shall be designated in the Amended and Restated Bylaws of the corporation. The directors shall be divided into three classes with the term of office of the first class (Class I) to expire at the annual meeting of stockholders held in 2000; the term of office of the second class (Class II) to expire at the annual meeting of stockholders held in 2001; the term of office of the third class (Class III) to expire at the annual meeting of stockholders held in 2002; and thereafter for each such term to expire at each third succeeding annual meeting of stockholders after such election.

2. Election of Directors. Elections of directors need not be by written ballot unless the Amended and Restated Bylaws of the corporation shall so provide.

ARTICLE X

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Amended and Restated Bylaws of the corporation.

ARTICLE XI

No action shall be taken by the stockholders of the corporation except at an annual or special meeting of the stockholders called in accordance with the Amended and Restated Bylaws and no action shall be taken by the stockholders by written consent. The affirmative vote of sixty-six and two-thirds percent (66 2/3%) of the then outstanding voting securities of the corporation, voting together as a single class, shall be required for the amendment, repeal or modification of the provisions of Article IX, Article X or Article XII of this Restated Certificate of Incorporation or Sections 2.3 (Special Meeting), 2.4 (Notice of Stockholders' Meeting), 2.5 (Advanced Notice of Stockholder Nominees and Stockholder Business), 2.10 (Voting), or 2.12 (Stockholder Action by Written Consent Without a Meeting), or 3.2 (Number of Directors) of the corporation's Amended and Restated Bylaws.

ARTICLE XII

Meetings of stockholders may be held within or without the State of Delaware, as the Amended and Restated Bylaws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Amended and Restated Bylaws of the corporation.

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IN WITNESS WHEREOF, LookSmart, Ltd. has caused this certificate to be signed by Evan Thornley, its Chief Executive Officer, this _____ day of _____, 1999.

Evan Thornley President and Chief Executive Officer

Attest By: _____

Hank V. Barry, Secretary

EXHIBIT 4.1

LookSmart, Ltd.

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

LSL

**THIS CERTIFICATE IS TRANSFERABLE IN
NEW YORK, NY OR RIDGEFIELD PARK, NJ**

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

**SEE REVERSE FOR CERTAIN DEFINITIONS
CUSIP 543442 10 7**

This certifies that is the record holder of

FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK, \$0.001 PAR VALUE, OF

TREASURER CHAIRMAN AND CHIEF EXECUTIVE OFFICER

COUNTERSIGNED and registered:

CHASEMELLON SHAREHOLDER SERVICES, L.L.C.

TRANSFER AGENT and registrar

BY

AUTHORIZED SIGNATURE

LookSmart, Ltd.

The Corporation will furnish to any stockholder, upon request and without charge, a statement of the powers, designations, preferences, and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights,

EXHIBIT 5.1

[LETTERHEAD OF WILSON SONSINI GOODRICH & ROSATI APPEARS HERE]

July 27, 1999

LookSmart, Ltd.
487 Bryant Street
San Francisco, CA

Re: Registration Statement on Form S-1

Ladies and Gentlemen:

We have examined the Registration Statement on Form S-1 (File No. 333- 80581) filed with the Securities and Exchange Commission on June 11, 1999 as such may be amended or supplemented, (the "Registration Statement"), in connection with the registration under the Securities Act of 1933, as amended, of shares of common stock of LookSmart, Ltd. (the "Shares"). The Shares, which include shares of common stock issuable pursuant to an over -allotment option granted to the underwriters, are to be sold to the underwriters as described in such Registration Statement for the sale to the public or issued to the representatives of the underwriters. As your counsel in connection with this transaction, we have examined the proceedings proposed to be taken in connection with said sale and issuance of the Shares.

It is our opinion that, upon approval by the pricing committee duly authorized by the Company's Board of Directors, the Shares, when issued and sold in the manner referred to in the Registration Statement, will be legally and validly issued, fully paid and nonassessable.

We consent to the use of this opinion as an exhibit to the Registration Statement, and further consent to the use of our name wherever appearing in the Registration Statement, including the prospectus constituting a part hereof, and any amendment thereto.

Very truly yours,

*/s/ Wilson Sonsini Goodrich &
Rosati*

*WILSON SONSINI GOODRICH & ROSATI
Professional Corporation*

Exhibit 10.1

INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("Agreement") is made as of this ____ day of _____, 1999 by and between LookSmart, Ltd., a Delaware corporation (the "Company"), and _____ ("Indemnitee").

WHEREAS, the Company and Indemnitee recognize the increasing difficulty in obtaining directors' and officers' liability insurance, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance;

WHEREAS, the Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting officers and directors to expensive litigation risks at the same time as the availability and coverage of liability insurance has been severely limited;

WHEREAS, Indemnitee does not regard the current protection available as adequate under the present circumstances, and Indemnitee and other officers and directors of the Company may not be willing to continue to serve as officers and directors without additional protection; and

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as officers and directors of the Company and to indemnify its officers and directors so as to provide them with the maximum protection permitted by law.

NOW, THEREFORE, the Company and Indemnitee hereby agree as follows:

1. Indemnification.

(a) Third Party Proceedings. The Company shall indemnify Indemnitee if Indemnitee is or was a party or is threatened to be made a party to any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while an officer or director or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such action or proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any action or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that (i) Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company, or (ii) with respect to any criminal

action or proceeding, Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(b) Proceedings By or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding by or in the right of the Company or any subsidiary of the Company to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while an officer or director or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) and, to the fullest extent permitted by law, amounts paid in settlement, in each case to the extent actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company and its shareholders, except that no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duty to the Company and its shareholders unless and only to the extent that the court in which such action or proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2. Expenses; Indemnification Procedure.

(a) Advancement of Expenses. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action or proceeding referenced in Section

1(a) or (b) hereof (but not amounts actually paid in settlement of any such action or proceeding). Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder shall be paid by the Company to Indemnitee within twenty (20) days following delivery of a written request therefor by Indemnitee to the Company.

(b) Notice/Cooperation by Indemnitee. Indemnitee shall, as a condition precedent to his right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to the Chief Executive Officer of the Company at the address shown on the signature page of this Agreement (or such other address as the Company shall designate in writing to Indemnitee). Notice shall be deemed received three business days after the date postmarked if sent by domestic certified or registered mail, properly addressed; otherwise notice shall be deemed received when such notice shall actually be received by the Company. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

(c) Procedure. Any indemnification provided for in Section 1 shall be made no later than forty-five (45) days after receipt of the written request of Indemnitee. If a claim under this Agreement, under any statute, or under any provision of the Company's Certificate of Incorporation or By-laws providing for indemnification, is not paid in full by the Company within forty-five (45) days after a written request for payment thereof has first been received by the Company, Indemnitee may, but need not, at any time thereafter bring an action against the Company to recover the unpaid amount of the claim and, subject to

Section 12 of this Agreement, Indemnitee shall also be entitled to be paid for the expenses (including attorneys' fees) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any action or proceeding in advance of its final disposition) that Indemnitee has not met the standards of conduct which make it permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed, but the burden of proving such defense shall be on the Company, and Indemnitee shall be entitled to receive interim payments of expenses pursuant to Subsection 2(a) unless and until such defense may be finally adjudicated by court order or judgment from which no further right of appeal exists. It is the parties' intention that if the Company contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be for the court to decide, and neither the failure of the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its shareholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct required by applicable law, nor an actual determination by the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its shareholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.

(d) Notice to Insurers. If, at the time of the receipt of a notice of a claim pursuant to Section 2(b) hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(e) Selection of Counsel. In the event the Company shall be obligated under Section 2(a) hereof to pay the expenses of any proceeding against Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such proceeding, with counsel approved by Indemnitee, which approval shall not be unreasonably withheld, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (i) Indemnitee shall have the right to employ his counsel in any such proceeding at Indemnitee's expense; and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense or (C) the Company shall not, in fact, have employed counsel to

assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company.

3. Additional Indemnification Rights; Nonexclusivity.

(a) Scope. Notwithstanding any other provision of this Agreement, the Company hereby agrees to indemnify the Indemnitee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's By-laws or by statute. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors or an officer, such changes shall be, ipso facto, within the purview of Indemnitee's rights and Company's obligations, under this Agreement. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

(b) Nonexclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Certificate of Incorporation, its By-laws, any agreement, any vote of shareholders or disinterested directors, the Delaware General Corporation Law, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though he may have ceased to serve in such capacity at the time of any action or other covered proceeding.

4. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by him in the investigation, defense, appeal or settlement of any civil or criminal action or proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

5. Mutual Acknowledgment. Both the Company and Indemnitee acknowledge that in certain instances, Federal law or applicable public policy may prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

6. Directors' and Officers' Liability Insurance. The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the

officers and directors of the Company with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all policies of directors' and officers' liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if Indemnitee is a director; or of the Company's officers, if Indemnitee is not a director of the Company but is an officer; or of the Company's key employees, if Indemnitee is not an officer or director but is a key employee. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a subsidiary or parent of the Company.

7. Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 7. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

8. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Excluded Acts. To indemnify Indemnitee for any acts or omissions or transactions from which a director may not be relieved of liability under the Delaware General Corporation Law.

(b) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 145 of the Delaware General Corporation Law, but such indemnification or advancement of expenses may be provided by the Company in specific cases if the Board of Directors has approved the initiation or bringing of such suit; or

(c) Lack of Good Faith. To indemnify Indemnitee for any expenses incurred by the Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous; or

(d) Insured Claims. To indemnify Indemnitee for expenses or liabilities of any whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) which have been paid directly to Indemnitee by an insurance carrier under a policy of directors' and officers' liability insurance maintained by the Company; or

(e) Claims Under Section 16(b). To indemnify Indemnitee for expenses and the securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

9. Effectiveness of Agreement. This Agreement shall be effective as of the date set forth on the first page and may apply to acts or omissions of Indemnitee which occurred prior to such date if Indemnitee was an officer, director, employee or other agent of the Company, or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, at the time such act or omission occurred.

10. Construction of Certain Phrases.

(a) For purposes of this Agreement, references to the "Company" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that if Indemnitee is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries.

11. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

12. Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of Indemnitee and Indemnitee's estate, heirs, legal representatives and assigns.

13. Attorneys' Fees. In the event that any action is instituted by Indemnitee under this Agreement to enforce or interpret any of the terms hereof, Indemnitee shall be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by Indemnitee with respect

to such action, unless as a part of such action, a court of competent jurisdiction determines that each of the material assertions made by Indemnatee as a basis for such action were not made in good faith or were frivolous. In the event of an action instituted by or in the name of the Company under this Agreement or to enforce or interpret any of the terms of this Agreement, Indemnatee shall be entitled to be paid all court costs and expenses, including attorneys' fees, incurred by Indemnatee in defense of such action (including with respect to Indemnatee's counterclaims and cross-claims made in such action), unless as a part of such action a court of competent jurisdiction determines that each of Indemnatee's material defenses to such action were made in bad faith or were frivolous.

14. Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if delivered by hand and receipted for by the party addressee, on the date of such receipt, or (ii) if mailed by domestic certified or registered mail with postage prepaid, on the third business day after the date postmarked. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice.

15. Consent to Jurisdiction. The Company and Indemnatee each hereby irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of Delaware.

16. Choice of Law. This Agreement shall be governed by and its provisions construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

LOOKSMART, LTD.

By: /s/ Evan Thornley

Evan Thornley
Chief Executive Officer

LookSmart, Ltd.

487 Bryant Street
San Francisco, CA 94107-1316

AGREED TO AND ACCEPTED:

INDEMNITEE:

Name:

Address: _____

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regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

- (i) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;
- (ii) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action; and
- (iii) allocating shares.

Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being

purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 20 hereof.

24. Automatic Transfer to Low Price Offering Period. To the extent permitted by any applicable laws, regulations, or stock exchange rules if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

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EXHIBIT A

LOOKSMART, LTD.

1999 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

____ Original Application Enrollment Date: _____ ____ Change in Payroll Deduction Rate
____ Change of Beneficiary(ies)

1. _____ hereby elects to participate in the LookSmart, Ltd. 1999 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.
2. I hereby authorize payroll deductions from each paycheck in the amount of ____% of my Compensation on each payday (from 1 to ____%) during the Offering Period in accordance with the Employee Stock Purchase Plan.
(Please note that no fractional percentages are permitted.)
3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option.
4. I have received a copy of the complete Employee Stock Purchase Plan. I understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of the Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject to shareholder approval of the Employee Stock Purchase Plan.
5. Shares purchased for me under the Employee Stock Purchase Plan should be issued in the name(s) of (Employee or Employee and Spouse only).
6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or one year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. I

hereby agree to notify the Company in writing within 30 days after the date of any disposition of my shares and I will make adequate provision for Federal, state or other tax withholding obligations, if any, which arise upon the

disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (2) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

7. I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

NAME: (Please print) _____ (First) (Middle) (Last)

Relationship

(Address)

Employee's Social
Security Number:

Employee's Address:

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: _____

Signature of Employee

Spouse's Signature (If beneficiary other than spouse)

EXHIBIT B

LOOKSMART, LTD.

1999 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the LookSmart, Ltd. 1999 Employee Stock Purchase Plan which began on _____, _____ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

Signature:

Date: _____

EXHIBIT 10.2

LOOKSMART, LTD.

AMENDED AND RESTATED

1998 STOCK PLAN

(July 1999)

1. Purposes of the Plan. The purposes of this Amended and Restated 1998 **Stock Plan are:**

- . to attract and retain the best available personnel for positions of substantial responsibility,
- . to provide additional incentive to Employees, Directors and Consultants, and
- . to promote the success of the Company's business.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

- (a) "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.
- (b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are, or will be, granted under the Plan.
- (c) "Board" means the Board of Directors of the Company.
- (d) "Code" means the Internal Revenue Code of 1986, as amended.
- (e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.
- (f) "Common Stock" means the common stock of the Company.
- (g) "Company" means LookSmart, Ltd., a Delaware corporation.
- (h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(i) "Director" means a member of the Board.

(j) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(k) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(n) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(o) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

- (p) "Notice of Grant" means a written or electronic notice evidencing certain terms and conditions of an individual Option or Stock Purchase Right grant. The notice of Grant is part of the Option Agreement.
- (q) "Office" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (r) "Option" means a stock option granted pursuant to the Plan.
- (s) "Option Agreement" means an agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.
- (t) "Option Exchange Program" means a program whereby outstanding Options are surrendered in exchange for Options with a lower exercise price.
- (u) "Optioned Stock" means the Common Stock subject to an Option or **Stock Purchase Right**.
- (v) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.
- (w) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (x) "Plan" means this Amended and Restated 1998 Stock Plan.
- (y) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of Stock Purchase Rights under Section 11 of the Plan.
- (z) "Restricted Stock Purchase Agreement" means a written agreement between the Company and the Optionee evidencing the terms and restrictions applying to stock purchased under a Stock Purchase Right. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.
- (aa) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.
- (bb) "Section 16(b)" means Section 16(b) of the Exchange Act.
- (cc) "Service Provider" means an Employee, Director or Consultant.
- (dd) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ee) "Stock Purchase Right" means the right to purchase Common Stock pursuant to Section 11 of the Plan, as evidenced by a Notice of Grant.

(ff) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be optioned and sold under the Plan is 20,850,000 Shares, plus an annual increase to be added on each anniversary date of the adoption of the Plan equal to the lesser of (i) 3,750,000 Shares, (ii) 4% of the outstanding Shares on such date, or (iii) a lesser amount determined by the Board. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated); provided, however, that Shares that have actually been issued under the Plan, whether upon exercise of an Option or Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administration Bodies. The Plan may be administered by different Committees with respect to different groups of Service Providers.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board, or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

- (i) to determine the Fair Market Value;
- (ii) to select the Service Providers to whom Options and Stock Purchase Rights may be granted hereunder;
- (iii) to determine the number of shares of Common Stock to be covered by each Option and Stock Purchase Right granted hereunder;
- (iv) to approve forms of agreement for use under the Plan;
- (v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;
- (vi) to reduce the exercise price of any Option or Stock Purchase Right to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option or Stock Purchase Right shall have declined since the date the Option or Stock Purchase Right was granted;
- (vii) to institute an Option Exchange Program;
- (viii) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan;
- (ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;
- (x) to modify or amend each Option or Stock Purchase Right (subject to Section 15(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for in the Plan;
- (xi) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

(xii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option or Stock Purchase Right previously granted by the Administrator;

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Optionees and any other holders of Options or Stock Purchase Rights.

5. Eligibility. Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) Neither the plan nor any Option or Stock Purchase Right shall confer upon an Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such relationship at any time, with or without cause.

(c) The following limitations shall apply to grants of Options:

(i) No Service Provider shall be granted, in any fiscal year of the Company, Options to purchase more than 1,500,000 Shares.

(ii) In connection with his or her initial service, a Service Provider may be granted Options to purchase up to an additional 1,000,000 Shares which shall not count against the limit set forth in subsection (i) above.

(iii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 13.

(iv) If an Option is cancelled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 13), the cancelled Option will be counted against the limits set forth in subsections (i) and (ii) above. For

this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

7. Term of Plan. Subject to Section 19 of the Plan, the Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless terminated earlier under Section 15 of the Plan.

8. Term of Option. The term of each Option shall be stated in the Option Agreement. In the case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Option Agreement. Moreover, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a merger or other corporate transaction.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions that must be satisfied before the Option may be exercised.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

(vi) a reduction in the amount of any Company liability to the Optionee, including any liability attributable to the Optionee's participation in any Company-sponsored deferred compensation program or arrangement;

(vii) any combination of the foregoing methods of payment; or

(viii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives:

(i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the

Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for the sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, other than upon the Optionee's death or Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares an Option previously granted based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically, by means of a Notice of Grant, of the terms, conditions and restrictions related to the offer, including the number of Shares that the offeree shall be entitled to purchase, the price to be paid, and the time within which the offeree must accept such offer. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or Disability). The purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at a rate determined by the Administrator.

(c) Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have the rights equivalent to those of a shareholder, and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 13 of the Plan.

12. Non-Transferability of Options and Stock Purchase Rights. Unless determined otherwise by the Administrator, an Option or Stock Purchase Right may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right shall contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustment Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option and

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until fifteen (15) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

14. Date of Grant. The date of grant of an Option or Stock Purchase Right shall be, for all purposes, the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

14. **Date of Grant.** The date of grant of an Option or Stock Purchase Right shall be, for all purposes, the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

15. **Amendment and Termination of the Plan.**

(a) **Amendment and Termination.** The Board may at any time amend, alter, suspend or terminate the Plan.

(b) **Shareholder Approval.** The Company shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) **Effect of Amendment or Termination.** No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Options granted under the Plan prior to the date of such termination.

16. **Conditions Upon Issuance of Shares.**

(a) **Legal Compliance.** Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) **Investment Representations.** As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

17. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

18. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

19. Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval shall be obtained in the manner and to the degree required under Applicable Laws.

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Exhibit 10.3

LOOKSMART, LTD.

1999 EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the 1999 Employee Stock Purchase Plan of LookSmart, Ltd.

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the common stock of the Company.

(d) "Company" shall mean LookSmart, Ltd. and any Designated **Subsidiary of the Company**.

(e) "Compensation" shall mean all base straight time gross earnings and commissions, but exclusive of payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other compensation.

(f) "Designated Subsidiary" shall mean any Subsidiary that has been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(g) "Employee" shall mean any individual who is an Employee of the Company for tax purposes whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(h) "Enrollment Date" shall mean the first Trading Day of each **Offering Period**.

(i) "Exercise Date" shall mean the last Trading Day of each **Purchase Period**.

(j) "Fair Market Value" shall mean, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the date of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock prior to the date of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board; or

(iv) For purposes of the Enrollment Date of the first Offering Period under the Plan, the Fair Market Value shall be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock (the "Registration Statement").

(k) "Offering Periods" shall mean the periods of approximately twenty-four (24) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after June 1 and December 1 of each year and terminating on the last Trading Day in the periods ending twenty-four months later; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before May 31, 2001. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(l) "Plan" shall mean this 1999 Employee Stock Purchase Plan.

(m) "Purchase Period" shall mean the approximately six month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall commence on the Enrollment Date and end with the next Exercise Date.

(n) "Purchase Price" shall mean 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; provided however, that the Purchase Price may be adjusted by the Board pursuant to Section 20.

(o) "Reserves" shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(p) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(q) "Trading Day" shall mean a day on which national stock exchanges and the Nasdaq System are open for trading.

3. Eligibility.

(a) Any Employee who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day on or after June 1 and December 1 each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before May 31, 2001. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without shareholder approval if such change is announced at least five

(5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll office prior to the applicable Enrollment Date.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding fifteen percent (15%) of the Compensation which he or she receives on each pay day during the Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his or her payroll deductions during the Offering Period by completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. The change in rate shall be effective with the first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at any time during a Purchase Period. Payroll deductions shall re-commence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Purchase Period more than 2,500 shares of the Company's Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof. The Board may, for future

Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the Company's Common Stock an Employee may purchase during each Purchase Period of such Offering Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Board determines that, on a given Exercise Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares available for sale under the Plan on such Exercise Date, the Board may in its sole discretion (x) provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (y) provide that the Company shall make a pro rata allocation of the shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20 hereof. The Company may make pro rata allocation of the shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's shareholders subsequent to such Enrollment Date.

9. Delivery. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option.

10. Withdrawal.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. All of the

participant's payroll deductions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Termination of Employment.

Upon a participant's ceasing to be an Employee, for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be Seven Hundred Fifty Thousand (750,000) shares, plus an annual increase to be added on the first day of the Company's fiscal year beginning in 2000 equal to the lesser of (i) 1,500,000 shares, (ii) 3% of the outstanding shares on such date or (iii) a lesser amount determined by the Board.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination

made by the Board or its committee shall, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation,

Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the Reserves, the maximum number of shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be

proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Board. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, any Purchase Periods then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date") and any Offering Periods then in progress shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its shareholders. Except as provided in Section 19 and this Section 20 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law,

regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

- (i) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;
- (ii) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action; and
- (iii) allocating shares.

Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any

present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 20 hereof.

24. Automatic Transfer to Low Price Offering Period. To the extent permitted by any applicable laws, regulations, or stock exchange rules if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

EXHIBIT A

LOOKSMART, LTD.

1999 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

____ Original Application Enrollment Date: _____ Change in Payroll Deduction Rate
____ Change of Beneficiary(ies)

1. _____ hereby elects to participate in the LookSmart, Ltd. 1999 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.
2. I hereby authorize payroll deductions from each paycheck in the amount of ____% of my Compensation on each payday (from 1 to ____%) during the Offering Period in accordance with the Employee Stock Purchase Plan.
(Please note that no fractional percentages are permitted.)
3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option.
4. I have received a copy of the complete Employee Stock Purchase Plan. I understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of the Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject

to shareholder approval of the Employee Stock Purchase Plan.
5. Shares purchased for me under the Employee Stock Purchase Plan should be issued in the name(s) of (Employee or Employee and Spouse only).
6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or one year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. I

hereby agree to notify the Company in writing within 30 days after the date of any disposition of my shares and I will make adequate provision for Federal, state or other tax withholding obligations, if any, which arise upon the

disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (2) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

7. I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

NAME: (Please print) _____ (First) (Middle) (Last)

Relationship

(Address)

Employee's Social Security Number: _____
Employee's Address: _____

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: _____

Signature of Employee

Spouse's Signature (If beneficiary other than spouse)

EXHIBIT B

LOOKSMART, LTD.

1999 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the LookSmart, Ltd. 1999 Employee Stock Purchase Plan which began on _____, _____ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

Signature:

Date: _____

[LETTERHEAD OF THIRTEEN.WNET APPEARS HERE]

June 18, 1999

Mr. Val Landi
Vice President, Marketing
Look Smart
487 Bryant Street
San Francisco, CA 94107

Dear Mr. Landi:

This Agreement, made as of the 18th/ day of June 1999, will confirm our mutual understanding with respect to a Grant of Two Million Three Hundred Fifty Thousand Dollars (\$2,350,000) by Look Smart ("Look Smart") to Educational Broadcasting Corporation ("EBC") for the production of the television series presently entitled CHEFS OF CUCHINA AMORE (the "Series"), to be distributed nationally to public television stations by the Public Broadcasting Service ("PBS"). The parties agree as follows:

1. The Term : The Grant for the Series is for a period of five broadcast seasons (i.e. 1999-2000, 2000-2001, 2001-2002, 2002-2003, 2003-2004) commencing with the season-opening broadcast in October, 1999. Either party may terminate this Agreement after the third broadcast season of the Series, by giving written notice to the non-terminating party on or before April 1, 2002. If this Agreement continues for the 2002-2003 broadcast season, either party may terminate this Agreement after the fourth broadcast season, by giving written notice to the non-terminating party on or before April 1, 2003.

2. The Series:

(a) Description: Each season of the Series will consist of fifty-two (52) half-hour weekly broadcasts comprised of twenty-six (26) original programs and twenty-six (26) repeat programs on the subject of Italian cooking.

(b) Distribution and Scheduling: It is anticipated that the Series will be distributed by PBS to local television stations throughout the United States. It is expressly understood that local scheduling and broadcast of the Series is within the sole discretion of local television stations, and that the same applies to EBC's local

scheduling. EBC will notify, and will cause PBS to notify, all PBS stations of Look Smart's partial national funding and request that any local funders not be from businesses competitive with Look Smart, namely, Internet Search engine/directory companies. Local funders on EBC's facilities will not be competitive with Look Smart.

3. The Grant: Look Smart, as partial national funder, will pay EBC the sum total of Two Million Three Hundred Fifty Thousand Dollars (\$2,350,000) for the production and presentation of the Series. The Series will also be supported by other corporations, government, foundations, individuals and public television sources, provided they are not businesses competitive with Look Smart.

4. Payment:

(a) Look Smart will make payment to EBC of the Grant as follows:

1999-2000

One Hundred Seventeen Thousand Five Hundred Dollars (\$117,500) on contract signing;

One Hundred Seventeen Thousand Five Hundred Dollars (\$117,500) on the date of PBS' first transmission of the Series;

One Hundred Seventeen Thousand Five Hundred Dollars (\$117,500) no later than three months after the date of PBS' first transmission of the Series;

and, One Hundred Seventeen Thousand Five Hundred Dollars (\$117,500) no later than six months after the date of PBS' first transmission of the Series.

2000-2004

Two Hundred Thirty-five Thousand Dollars (\$235,000) on the date of PBS's first transmission of the Series in each season;

One Hundred Seventeen Thousand Five Hundred Dollars (\$117,500) no later than three months after the date of PBS's first transmission of the Series in each season;

One Hundred Seventeen Thousand Five Hundred Dollars (\$117,500) no later than six months after the date of PBS' first transmission of the Series in each season.

All payments shall be made to Educational Broadcasting Corporation, 450 West 33rd/ Street, New York, NY 10001. Attention: Thomas A. Conway, Treasurer

(b) Nothing herein shall be deemed to require EBC to produce the Series.

(c) In the event that the Series is terminated before the end of any season during the Term, EBC and Look Smart will negotiate in good faith as to an appropriate reduction in the Grant for that season, and no payments for subsequent seasons will be due.

5. Underwriting Credit:

(a) Each program in the Series, including any and all repeat broadcasts, during the Term, will carry an underwriting credit, not to exceed fifteen seconds (:15) in length, at the beginning and conclusion, in both audio and visual form, stating that Look Smart helped make the Series possible, in part, by its Grant. Look Smart's announcement will appear before that of any other underwriter. All underwriting credits are subject to FCC regulations, PBS and EBC guidelines, and are subject to approval by EBC and PBS.

(b) Look Smart will be responsible for all the costs of producing such underwriting credits and understands that public television stations will have the right to repeat a program in the Series, including the Look Smart credits, for a period of up to two (2) years after the initial release of the program by PBS. Look Smart will deliver the completed and fully-approved credit to EBC in Beta format no later than twelve weeks before the scheduled release of the first program of each broadcast season.

6. Promotion/Advertising:

(a) EBC and Look Smart will make a joint announcement of Look Smart's funding of the Series. Look Smart will also have recognition on all promotional and press materials for the Series that are created or controlled by EBC. Inadvertent failure to identify Look Smart in any particular instance will not be a breach of this Agreement.

(b) EBC will assign a client service person as a liaison to Look Smart in connection with the implementation of this Agreement.

(c) EBC will cause PBS to provide a hot link to the Look Smart site at the PBS website www.pbs.org.

(d) Look Smart may make reference to its role as an underwriter of the Series in program promotion and institutional promotion provided that Look Smart affords EBC prior approval of any and all promotional materials. Look Smart will not act in any manner so as to express or imply institutional endorsement by EBC, its officers

and employees, or others who appear on or are connected with the Series, without the prior permission of such parties.

7. Representation, Warranty and Indemnity:

(a) Look Smart represents and warrants, with respect to any material or information which it provides in connection with the underwriting credit, or for advertising or promotion of the Series, that it will obtain the necessary permissions and releases and that the use of such material or information as contemplated by this Agreement will not violate or infringe upon the personal or proprietary rights of any third parties. EBC represents and warrants, with respect to any material or information which it provides in connection with the underwriting credit or for advertising or promotion of the Series, that it will obtain the necessary permissions and releases and that the use of such material or information will not violate or infringe upon the personal or proprietary rights of any third parties.

(b) Look Smart will at all times indemnify, defend and hold EBC, its trustees, officers and employees, harmless from and against any and all claims, damages, costs, liabilities and expenses, including reasonable attorney's fees, arising out of or in connection with any breach or alleged breach of any warranty, representation, obligation, undertaking or agreement made by Look Smart herein. EBC will at all times indemnify, defend and hold Look Smart, its subsidiaries, affiliates, officers and employees, harmless from and against any and all claims, damages, costs, liabilities and expenses, including reasonable attorney's fees, arising out of or in connection with (i) any breach or alleged breach of any warranty, representation, obligation, undertaking or agreement made by EBC herein, and (ii) all content, production, distribution and broadcast of the programs in the Series.

(c) The parties agree that notwithstanding anything to the contrary set forth above, neither party will be liable for indirect; special or consequential damages even in the event that the party being charged was advised of the possibility of the same.

8. Miscellaneous:

(a) This Agreement is governed by the laws of the State of New York applicable to contracts entered into and to be fully performed therein. Any and all matters of dispute of any nature whatsoever arising out of, or in any way connected with this Agreement, or the relationship between the parties hereto, will be subject to determination only by the Federal or State courts located in the State of New York, within the County of New York. Look Smart and EBC hereby consent and submit to the jurisdiction of such courts.

(b) Nothing herein shall be deemed to create any association, partnership, or joint venture between EBC and Look Smart.

(c) Neither party shall assign its rights or obligations hereunder without the written consent of the other party.

(d) All notices given by either party under this Agreement must be in writing and sent postage pre-paid to the other party at its address given above, with notices to EBC sent with a courtesy copy to the Office of General Counsel.

(e) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and may not be amended or modified except in writing signed by the parties.

If the foregoing accords with your understanding, please so indicate by signing below at the place indicated.

Very truly yours,

*EDUCATIONAL BROADCASTING
CORPORATION*

By: /s/ Thomas Conway, VP & CFO

Date: 7-7-99

Accepted and Agreed:

LOOK SMART

By: /s/ Val Landi

Date: 6/28/99

[LOGO OF THIRTEEN.WNET APPEARS HERE]

June 18, 1999

Mr. Val Landi
Vice President, Marketing
Look Smart
487 Bryant Street
San Francisco, CA 94107

Dear Mr. Landi:

This Agreement, made as of the 18th day of June 1999, will confirm our mutual understanding with respect to a Grant of Two Million Eight Hundred Thousand Dollars (\$2,800,000) by Look Smart ("Look Smart") to Educational Broadcasting Corporation ("EBC") for the production of the television series presently entitled GREAT FOOD (the "Series"), to be distributed nationally to public television stations by the Public Broadcasting Service ("PBS"). The parties agree as follows:

1. The Term: The Grant for the Series is for a period of five years (i.e.

2000-2005) commencing in January, 2000. Either party may terminate this Agreement as of January, 2003, by giving written notice to the non-terminating party on or before July 1, 2002. If this Agreement continues for the fourth broadcast year, either party may terminate this Agreement as of January, 2004, by giving written notice to the non-terminating party on or before July 1, 2003.

2. The Series:

(a) Description: Each broadcast year of the Series will consist of not less than thirty-nine (39) half-hour weekly broadcasts featuring chefs from around the world.

(b) Distribution and Scheduling: It is anticipated that the Series will be distributed by PBS to local television stations throughout the United States in January, 2000. It is expressly understood that local scheduling and broadcast of the Series is within the sole discretion of local television stations, and that the same applies to EBC's local scheduling. EBC will notify, and will cause PBS to notify, all PBS stations of Look Smart's partial national funding and request that any local funders not be from businesses competitive

with Look Smart, namely, Internet Search engine/directory companies. Local funders on EBC's facilities will not be competitive with Look Smart.

3. The Grant: Look Smart, as partial national funder, will pay EBC the sum total of Two Million Eight Hundred Thousand Dollars (\$2,800,000) for the production and presentation of the Series. The Series will also be supported by other corporations, government, foundations, individuals and public television sources, provided they are not businesses competitive with Look Smart.

4. Payment:

(a) Look Smart will make payment to EBC of the Grant as follows:

2000-2001

One Hundred Forty Thousand Dollars (\$140,000) on contract signing;

One Hundred Forty Thousand Dollars (\$140,000) on the date of PBS' first transmission of the Series;

One Hundred Forty Thousand Dollars (\$140,000) no later than three months after the date of PBS' first transmission of the Series;

and, One Hundred Forty Thousand Dollars (\$140,000) no later than six months after the date of PBS' first transmission of the Series.

2001-2005

Two Hundred Eighty Thousand Dollars (\$280,000) on the date of PBS' first transmission of the Series in each broadcast year;

One Hundred Forty Thousand Dollars (\$140,000) no later than three months after the date of PBS' first transmission of the Series in each broadcast year;

One Hundred Forty Thousand Dollars (\$140,000) no later than six months after the date of PBS' first transmission of the Series in each broadcast year.

All payments shall be made to Educational Broadcasting Corporation, 450 West 33rd/ Street, New York, NY 10001. Attention: Thomas A. Conway, Treasurer.

(b) Nothing herein shall be deemed to require EBC to produce the Series.

(c) In the event that the Series is terminated before the end of the third quarter of any broadcast year during the Term, EBC and Look Smart will negotiate in good faith as to an appropriate reduction in the Grant for that year, and no payments for subsequent years will be due.

5. Underwriting Credit:

(a) Each program in the Series, including any and all repeat broadcasts, during the Term, will carry an underwriting credit, not to exceed fifteen seconds (:15) in length, at the beginning and conclusion, in both audio and visual form, stating that Look Smart helped make the Series possible, in part, by its Grant. Look Smart's announcement will appear before that of any other underwriter. All underwriting credits are subject to FCC regulations, PBS and EBC guidelines, and are subject to approval by EBC and PBS.

(b) Look Smart will be responsible for all the costs of producing such underwriting credits and understands that public television stations will have the right to repeat a program in the Series, including the Look Smart credits, for a period of up to two (2) years after the initial release of the program by PBS. Look Smart will deliver the completed and fully-approved credit to EBC in Beta format no later than twelve weeks before the scheduled release of the first program of each broadcast year.

5. Promotion/Advertising:

(a) EBC and Look Smart will make a joint announcement of Look Smart's funding of the Series. Look Smart will also have recognition on all promotional and press materials for the Series that are created or controlled by EBC. Inadvertent failure to identify Look Smart in any particular instance will not be a breach of this Agreement.

(b) EBC will assign a client service person as a liaison to Look Smart in connection with the implementation of this Agreement.

(c) EBC will cause PBS to provide a hot link to the Look Smart site at the PBS website www.pbs.org.

(d) Look Smart may make reference to its role as an underwriter of the Series in program promotion and institutional promotion provided that Look Smart affords EBC prior approval of any and all promotional materials. Look Smart will not act in any manner so as to express or imply institutional endorsement by EBC, its officers and employees, or others who appear on or are connected with the Series, without the prior permission of such parties.

7. Representation, Warranty and Indemnity:

(a) Look Smart represents and warrants, with respect to any material or information which it provides in connection with the underwriting credit, or for advertising or promotion of the Series, that it will obtain the necessary permissions and releases and that the use of such material or information as contemplated by this Agreement will not violate or infringe upon the personal or proprietary rights of any third parties. EBC represents and warrants, with respect to any material or information which it provides in connection with the underwriting credit or for advertising or promotion of the Series, that it will obtain the necessary permissions and releases and that the use of such material or information will not violate or infringe upon the personal or proprietary rights of any third parties.

(b) Look Smart will at all times indemnify, defend and hold EBC, its trustees, officers and employees, harmless from and against any and all claims, damages, costs, liabilities and expenses, including reasonable attorney's fees, arising out of or in connection with any breach or alleged breach of any warranty, representation, obligation, undertaking or agreement made by Look Smart herein. EBC will at all times indemnify, defend and hold Look Smart, its subsidiaries, affiliates, officers and employees, harmless from and against any and all claims, damages, costs, liabilities and expenses, including reasonable attorney's fees, arising out of or in connection with (i) any breach or alleged breach of any warranty, representation, obligation, undertaking or agreement made by EBC herein, and (ii) all content, production, distribution and broadcast of the programs in the Series.

(c) The parties agree that notwithstanding anything to the contrary set forth above, neither party will be liable for indirect, special or consequential damages even in the event that the party being charged was advised of the possibility of same.

8. Miscellaneous:

(a) This Agreement is governed by the laws of the State of New York applicable to contracts entered into and to be fully performed therein. Any and all matters of dispute of any nature whatsoever arising out of, or in any way connected with this Agreement, or the relationship between the parties hereto, will be subject to determination only by the Federal or State courts located in the State of New York, within the County of New York. Look Smart and EBC hereby consent and submit to the jurisdiction of such courts.

(b) Nothing herein shall be deemed to create any association, partnership, or joint venture between EBC and Look Smart.

(c) Neither party shall assign its rights or obligations hereunder without the written consent of the other party.

(d) All notices given by either party under this Agreement must be in writing and sent postage pre-paid to the other party at its address given above, with notices to EBC sent with a courtesy copy to the Office of General Counsel.

(e) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and may not be amended or modified except in writing signed by the parties.

If the foregoing accords with your understanding, please so indicate by signing below at the place indicated.

Very truly yours,
Accepted and Agreed:

EDUCATIONAL BROADCASTING
CORPORATION

LOOK SMART

BY: /s/ Thomas Conway

By: /s/ Val Landi

Date: 7-7-99

Date: 6/28/99

[LETTERHEAD OF THIRTEEN.WNET APPEARS HERE]

June 18, 1999

Mr. Val Landi
Vice President, Marketing
Look Smart
487 Bryant Street
San Francisco, CA 94107

Dear Mr. Landi:

This Agreement, made as of the 18th day of June 1999, will confirm our mutual understanding with respect to a Grant of Two Million One Hundred Thousand Dollars (\$2,100,000) by Look Smart ("Look Smart") to Educational Broadcasting Corporation ("EBC") for the production of the television series presently entitled MASTERCHEF USA (the "Series"), to be distributed nationally to public television stations by the Public Broadcasting Service ("PBS"). The parties agree as follows:

1. The Term: The Grant for the Series is for a period of five years (i.e. 2000-2005) commencing in May, 2000. Either party may terminate this Agreement as of May, 2003, by giving written notice to the nonterminating party on or before November 1, 2002. If this Agreement continues for the fourth broadcast year, either party may terminate this Agreement as of May, 2004, by giving written notice to the nonterminating party on or before November 1, 2003.

2. The Series:

(a) Description:

(i) Each broadcast year of the Series will consist of not less than thirteen (13) half-hour weekly broadcasts featuring a competition to find the best amateur chef in the USA.

(ii) EBC contemplates producing a one (1) hour special broadcast (the "Special") for the Series which may be broadcast in addition to the thirteen (13) broadcasts referred to in Section

2(a)(i) above, or in lieu of, one of the said broadcasts. In the event that EBC produces the Special, some portion of the Grant shall be applied to it and Look

Smart shall receive underwriting credit for the Special in accordance with the terms and conditions of this Agreement. Nothing herein shall be deemed to require EBC to produce the Special.

(b) Distribution and Scheduling: It is anticipated that the Series will be distributed by PBS to local television stations throughout the United States in April, 2000. It is expressly understood that local scheduling and broadcast of the Series is within the sole discretion of local television stations, and that the same applies to EBC's local scheduling. EBC will notify, and will cause PBS to notify, all PBS stations of Look Smart's partial national funding and request that any local funders not be from businesses competitive with Look Smart, namely, Internet Search engine/directory companies. Local funders on EBC's facilities will not be competitive with Look Smart.

3. The Grant: Look Smart, as partial national funder, will pay EBC the sum total of Two Million One Hundred Thousand Dollars (\$2,100,000 for the production and presentation of the Series. The Series will also be supported by other corporations, government, foundations, individuals and public television sources, provided they are not businesses competitive with Look Smart.

4. Payment:

(a) Look Smart will make payment to EBC of the Grant as follows:

2000-2001

One Hundred Five Thousand Dollars (\$105,000) on contract signing;

One Hundred Five Thousand Dollars (\$105,000) on the date of PBS' first transmission of the Series;

One Hundred Five Thousand Dollars (\$105,000) no later than three months after the date of PBS' first transmission of the Series;

and, One Hundred Five Thousand Dollars (\$105,000) no later than six months after the date of PBS' first transmission of the Series;

2001-2005

Two Hundred Ten Thousand Dollars (\$210,000) on the date of PBS' first transmission of the Series in each broadcast year;

One Hundred Five Thousand Dollars (\$105,000) no later than three months after the date of PBS' first transmission of the Series in each broadcast year;

One Hundred Five Thousand Dollars (\$105,000) no later than six months after the date of PBS' first transmission of the Series in each broadcast year.

All payments shall be made to Educational Broadcasting Corporation, 450 West 33rd/ Street, New York, NY 10001. Attention: Thomas A. Conway, Treasurer.

(b) Nothing herein shall be deemed to require EBC to produce the Series.

(c) In the event that the Series is terminated before the end of the scheduled broadcast period in any broadcast year during the Term, EBC and Look Smart will negotiate in good faith as to an appropriate reduction in the Grant for that year, and no payments for subsequent years will be due.

5. Underwriting Credit:

(a) Each program in the Series, including any and all repeat broadcasts, during the Term, will carry an underwriting credit, not to exceed fifteen seconds (:15) in length, at the beginning and conclusion, in both audio and visual form, stating that Look Smart helped make the Series possible, in part, by its Grant. Look Smart's announcement will appear before that of any other underwriter. All underwriting credits are subject to FCC regulations, PBS and EBC guidelines, and are subject to approval by EBC and PBS.

(b) Look Smart will be responsible for all the costs of producing such underwriting credits and understands that public television stations will have the right to repeat a program in the Series, including the Look Smart credits, for a period of up to two (2) years after the initial release of the program by PBS. Look Smart will deliver the completed and fully-approved credit to EBC in Beta format no later than twelve weeks before the scheduled release of the first program of each broadcast year.

6. Promotion/Advertising:

(a) EBC and Look Smart will make a joint announcement of Look Smart's funding of the Series. Look Smart will also have recognition on all promotional and press materials for the Series that are created or controlled by EBC. Inadvertent failure to identify Look Smart in any particular instance will not be a breach of this Agreement.

(b) EBC will assign a client service person as a liaison to Look Smart in connection with the implementation of this Agreement.

(c) EBC will cause PBS to provide a hot link to the Look Smart site at the PBS website www.pbs.org.

(d) Look Smart may make reference to its role as an underwriter of the Series in program promotion and institutional promotion provided that Look Smart affords EBC prior approval of any and all promotional materials. Look Smart will not act in any manner so as to express or imply institutional endorsement by EBC, its officers and employees, or others who appear on or are connected with the Series, without the prior permission of such parties.

7. Representation, Warranty and Indemnity:

(a) Look Smart represents and warrants, with respect to any material or information which it provides in connection with the underwriting credit, or for advertising or promotion of the Series, that it will obtain the necessary permissions and releases and that the use of such material or information as contemplated by this Agreement will not violate or infringe upon the personal or proprietary rights of any third parties. EBC represents and warrants, with respect to any material or information which it provides in connection with the underwriting credit or for advertising or promotion of the Series, that it will obtain the necessary permissions and releases and that the use of such material or information will not violate or infringe upon the personal or proprietary rights of any third parties.

(b) Look smart will at all times indemnify, defend and hold EBC, its trustees, officers and employees, harmless from and against any and all claims, damages, costs, liabilities and expenses, including reasonable attorney's fees, arising out of or in connection with any breach or alleged breach of any warranty, representation, obligation, undertaking or agreement made by Look Smart herein. EBC will at all times indemnify, defend and hold Look Smart, its subsidiaries, affiliates, officers and employees, harmless from and against any and all claims, damages, costs, liabilities and expenses, including reasonable attorney's fees, arising out of or in connection with (i) any breach or alleged breach of any warranty, representation, obligation, undertaking or agreement made by EBC herein, and (ii) all content, production, distribution and broadcast of the programs in the Series.

(c) The parties agree that notwithstanding anything to the contrary set forth above, neither party will be liable for indirect, special or consequential damages even in the event that the party being charged was advised of the possibility of same.

8. Miscellaneous:

(a) This Agreement is governed by the laws of the State of New York applicable to contracts entered into and to be fully performed therein. Any and all matters of dispute of any nature whatsoever arising out of, or in any way connected with this Agreement, or the relationship between the parties hereto, will be subject to determination only by the Federal or State courts located in the State of New York, within the County of New York. Look Smart and EBC hereby consent and submit to the jurisdiction of such courts.

(b) Nothing herein shall be deemed to create any association, partnership, or joint venture between EBC and Look Smart.

(c) Neither party shall assign its rights or obligations hereunder without the written consent of the other party.

(d) All notices given by either party under this Agreement must be in writing and sent postage pre-paid to the other party at its address given above, with notices to EBC sent with a courtesy copy to the Office of General Counsel.

(e) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and may not be amended or modified except in writing signed by the parties.

If the foregoing accords with your understanding, please so indicate by signing below at the place indicated.

Very truly yours,

Accepted and Agreed:

*EDUCATIONAL BROADCASTING
CORPORATION*

LOOK SMART

By: /s/ Thomas A. Conway,

By: /s/ Val Landi

Thomas A. Conway, VP & CPO

Date: 7-7-99

Date: 6/28/99

EXHIBIT 10.10D

[LETTERHEAD APPEARS HERE] [LOGO OF WGBH APPEARS HERE]

UNDERWRITING AGREEMENT

Underwriting Agreement entered into this 7th day of June, 1999, between the WGBH Educational Foundation, a non-profit charitable Massachusetts corporation having its principal place of business at 125 Western Avenue, Boston, Massachusetts 02134 ("WGBH"), and:

Company: LookSmart ("LookSmart") Address: 487 Bryant Street San Francisco, CA 94107

Attn: Val Landi, Vice President, Marketing

In consideration of the mutual covenants set forth herein, LookSmart, and WGBH hereby agree to the terms and conditions in The Schedule set forth below and the attached General Terms and Conditions (collectively, the "Agreement").

THE SCHEDULE

1. Series (the "Series"):

(a) Title of the Series: MYSTERY!

(b) Broadcast Season(s): 1999-2000, 200-20001, 2001-2002

(c) Approximate Length of each Program in the Series: Sixty minutes (60:00)

(d) Series Description: A weekly mystery series mixing period and contemporary drama.

2. Amount of Contribution: Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000) (NET) (the "Grant").

3. Payment Schedule (the "Payment Schedule"): LookSmart shall make payment of the Grant to WGBH as follows:

(a) 1999-2000 Broadcast Season

(i) \$187,500 payable no later than fifteen (15) days after the execution of this Agreement;

(ii) \$187,500 payable no later than September 15, 1999;

(iii) \$187,500 payable no later than December 15, 1999; and

(iv) \$187,500 payable no later than March 15, 2000.

(b) 2000-2001 Broadcast Season

(i) \$187,500 payable no later than September 15, 2000;

(ii) \$187,500 payable no later than December 15, 2000;

(iii) \$187,500 payable no later than March 15, 2001; and

(iv) \$187,500 payable no later than June 1, 2001.

(c) 2001-2002 Broadcast Season

- (i) \$187,500 payable no later than September 15, 2001;
- (ii) \$187,500 payable no later than December 15, 2001;
- (iii) \$187,500 payable no later than March 15, 2002; and
- (iv) \$187,500 payable no later than June 15, 2002.

WGBH shall invoice LookSmart according to this Payment Schedule. Invoices shall be addressed to Val Landi at the address indicated above,

4. Credit Length: Fifteen seconds (00:15)

5. Where any matter contained in The Schedule may be so read as to alter, amend, or supersede any part of the General Terms and Conditions, then The Schedule shall be deemed to be the definitive and over-ruling part of this Agreement.

6. Additional Conditions:

(a) Additional Funder(s): LookSmart shall have the right to approve any additional corporate funder(s), such approval not to be unreasonably withheld. However, LookSmart's only reason for withholding approval of an additional corporate funder(s) shall be based on a demonstration that such additional corporate funder(s) or a product line of such additional corporate funder(s) competes directly with LookSmart in the marketplace.

(b) Termination: In the event WGBH does not obtain sufficient funding for the 2000-2001 and/or 2001-2002 Broadcast Season(s) of the Series, WGBH shall have the right to terminate this Agreement.

(c) Subsequent Season of the Series:

(i) Should WGBH intend to produce the 2002-2003 and 2003-2004 Season(s) of the Series, WGBH agrees to afford LookSmart the first right to underwrite such additional season(s), provided that LookSmart agrees at such time to provide to WGBH a non-returnable grant in the amount of \$1,500,000 (\$750,000 per Season) to meet the production, broadcast, and promotion costs of such additional season(s) of the Series.

(ii) In the event LookSmart does not agree to provide WGBH a non-returnable grant in the amount of \$1,500,000 by November 1, 2001, WGBH shall be free to seek the support of and enter into agreements with other funders without any further obligation to LookSmart.

(d) The following is added to the end of Paragraph 5 of the General Terms and Conditions:

"(c) WGBH shall include LookSmart's logo on any Series online site, subject to PBS guidelines. Such logo will be a 'hyper link' to the LookSmart online site."

ACCEPTED AND AGREED TO effective as of the date first herein above shown by

WGBH Educational Foundation

LookSmart

By: /s/ Andrew S. Griffiths

By: /s/ Val Landi

Andrew S. Griffiths
Treasurer
Marketing

Val Landi,
Vice President,

GENERAL TERMS AND CONDITIONS

The Series

1. (a) WGBH agrees to produce the Series and use its best efforts to arrange for broadcast distribution thereof to public television stations during the Broadcast Season(s) set forth in Paragraph 1(b) of the Schedule.
 - (b) WGBH agrees to notify LookSmart of the initial broadcast dates for each program in the Series promptly upon the scheduling thereof.
 - (c) LookSmart, understands and agree that the Public Broadcasting Service ("PBS") retains sole responsibility for the scheduling of the Series and may occasionally pre-empt a program for re-scheduling at a later date. WGBH will use its best efforts to notify LookSmart, of pre-emption and the rescheduled date.
2. WGBH shall have sole responsibility for the production of the Series and all of its contents and elements. The parties agree that as between LookSmart, and WGBH, WGBH shall own all right, title, and interest, including the copyright, in and to the Series and all materials related thereto, to be used and disposed of as WGBH shall in its sole discretion determine.

Compensation

3. (a) LookSmart, shall pay WGBH and WGBH shall accept as full compensation for WGBH's obligations herein, the Grant set forth in Paragraph 2 of The Schedule. Payment of the Grant to WGBH shall be made in accordance with the Payment Schedule set forth in Paragraph 3 of The Schedule.
 - (b) Without limiting any of WGBH's rights and remedies, interest on late payments will be charged at the Fleet Bank Massachusetts N.A. Prime Rate and shall start accruing as of the first day after a payment is due. A payment shall be deemed late if it is not received by WGBH within thirty (30) days after the applicable date set forth in this Payment Schedule.
4. To facilitate WGBH's public broadcasting reporting requirements, LookSmart, agrees to use its best efforts to supply WGBH with a written statement in the form attached as Exhibit A, regarding all of LookSmart's in-Kind expenditures on the Series, including those for promotion and advertising.

LookSmart's Credits

5. (a) LookSmart shall receive an audio and video credit at the beginning and end of each program contained in the Series as an underwriter of the Series on all public television broadcasts of each program of the Series during the Broadcast Season(s), in accordance with the Communications Act, rules and regulations of the Federal Communications Commission ("FCC") and PBS, and such credit shall appear for the length set forth in Paragraph 4 of The Schedule.
- (b) WGBH shall have the right to use LookSmart's corporate name and symbol in connection with LookSmart's underwriting credit only, with LookSmart's permission.

Promotion

6. The parties acknowledge and agree that the Grant includes the costs for the preparation and distribution of basic promotional materials for the Series including press releases and on-air promotional spots for use by public television stations. WGBH agrees to credit LookSmart as a funder of the Series in all print promotion thereof produced by WGBH after the date of full execution of this Agreement.

7. LookSmart agrees to submit any plans it may have for the promotion of the Series (including the text of press releases and text and layouts for advertisements) to WGBH for approval to ensure the accuracy and appropriateness of all promotional and advertising materials issued in connection with the Series. WGBH agrees to respond promptly to, and will not unreasonably withhold approval of, all materials so submitted. When notified by WGBH, LookSmart, agrees to include in all such materials, the appropriate trade/service mark registration symbol in uses of the Series' name.

LookSmart's Copy of the Series

8. WGBH shall provide, at its cost and expense, one (1) videocassette copy of each program in the Series to LookSmart, which LookSmart agrees to use for private, in-house screening purpose only. LookSmart understands and agrees that, due to certain union restrictions which may limit the use of the Series, any use of these cassettes other than the limited screening use referenced herein is subject to the prior written approval of WGBH, and as appropriate, individual unions and guilds. LookSmart further agrees that it does not hold any distribution rights as a result of its receipt and possession of these videocassette copies of the programs in the Series.

Representations, Warranties, and Indemnities

9. WGBH represent and warrants that it has the legal right and authority to enter into this Agreement and to observe and perform fully its obligations set forth herein, and that its performance hereunder will not conflict with or violate any commitment, agreement, or understanding it has or will have to or with any other person or entity.

10. WGBH shall pay and indemnify and hold harmless LookSmart, and its grantors, officers, trustees, assignees, directors, agents, licensees, and employees from and against all claims, losses, costs, expenses, settlements, demands, and liabilities of every kind, including reasonable attorneys' fees and expenses, arising out of or incurred by reason of the inaccuracy, alleged breach, or actual breach of any representation, warranty, covenant, agreement, or undertaking made by WGBH herein, or involving any matter in connection with or caused by the Series or under its control; provided, however, that if any claim shall be made or action taken which, if true, would constitute a breach of any representation, warranty, covenant, agreement, or undertaking made by WGBH herein, LookSmart agrees to give WGBH prompt notice thereof and LookSmart shall have the right to contest or join in the contest of such claim or action and may be represented by counsel chosen by LookSmart.

11. LookSmart represents and warrants that it has the legal right and authority to enter into this Agreement and to observe and fully perform its obligations set forth herein, and that LookSmart's performance hereunder, will not conflict with or violate any commitment, agreement, or understanding it has or will have to or with any other person or entity.

12. LookSmart shall defend, indemnify and hold harmless WGBH and its grantors, officers, trustees, assignees, agents, licensees, and employees from and against all claims, losses, costs, expenses, settlements, demands, and liabilities of every kind, including reasonable attorneys' fees and expenses, arising out of or incurred by reason of the accuracy, alleged breach, or actual breach of any representation, warranty, covenant, agreement, or undertaking made by LookSmart herein, or involving any matter in connection with LookSmart's advertising or promotion of the Series; provided, however that if any claim shall be made or action taken which, if true, would constitute a breach of any representation, warranty, covenant, agreement, or understanding made by LookSmart herein, WGBH agrees to give LookSmart prompt notice thereof and WGBH, shall have the right to contest or join in the contest of such claim or action and may be represented by counsel chosen by WGBH.

Force Majeure

13. In the event that production or broadcast of the Series or any program in the Series is delayed or canceled by reason of act of God, fire, lockout, strike, or other labor dispute, riot or civil disorder, war or armed insurrection, enactment, rule, act or order of government, mechanical failure, or any other force majeure cause or reason demonstrably beyond WGBH's control, then WGBH shall use its best efforts to produce and/or arrange for broadcast distribution as soon as possible after any such event.

Miscellaneous

14. The parties shall notify each other in writing in the event that either deems this Agreement to be breached and shall give the other party thirty (30) days to cure such breach before taking action or making a claim on the basis of such breach.

15. This Agreement is complete and embraces the entire understanding between the parties. All prior and contemporaneous understandings in connection with the subject matter herein contained, either oral or written, are null and void unless expressly set forth herein. No alteration, modification, or waiver, in whole or in part, of any provision of this Agreement shall be of any effect unless set forth in writing and signed by both parties hereto.

16. Whenever notice is required to be given or may appropriately be given hereunder, such notice shall be in writing and shall be delivered to the person or parties to whom intended at their addresses first stated above.

17. This Agreement is entered into within the Commonwealth of Massachusetts and shall be governed and construed in accordance with Massachusetts law as if this Agreement were to be fully performed within the Commonwealth of Massachusetts, without giving effect to principles of conflicts of laws. The parties agree to submit solely and exclusively to the jurisdiction of the state and federal courts of the Commonwealth of Massachusetts to resolve any disputes arising hereunder.

END OF GENERAL TERMS AND CONDITIONS

EXHIBIT A

WGBH Educational Foundation
125 Western Avenue
Boston, MA 02134

Attention: Director of Client Services

Dear Sir/Madam:

In addition to LookSmart's direct grant, LookSmart has spent \$ _____ on promotion, advertising, and related costs.

Sincerely yours,

*/s/ Val Landi
Val Landi
Vice President,
Marketing
LookSmart*

Exhibit 10.10E

This Agreement dated June 28, 1999, is made by and between Children's Television Workshop ("CTW") a New York not-for-profit corporation with offices located at One Lincoln Plaza, New York, NY 10023, and LookSmart Ltd ("LookSmart"), a closely held private company with offices located at 487 Bryant Street, San Francisco, CA 94107, and, solely with respect to paragraphs 4(a)(ii), 4(a)(iii), 4(b), 4(c) 7(b), 7(c), 11, 12 and 14, the Public Broadcasting Service ("PBS"), a non-profit District of Columbia corporation having its principal place of business at 1320 Braddock Place, Alexandria, VA 22314 (collectively, the "Parties").

In consideration for the mutual obligations described below, the Parties hereby agree as follows:

1. Television Series (the "Program")

(a) Title of the Program: "Sesame Street"

(b) Approximate length of each program: Sixty minutes (60:00)

(c) Broadcast distribution: Sesame Street is made available by PBS for broadcast to all PBS member stations in the United States no less than twice each weekday and once on Sundays.

2. Term

The "Term" of this Agreement shall be three years as follows:

- . Year 1 - Season 31 of the Program (spanning approximately all of calendar year 2000)
- . Year 2 - Season 32 of the Program (spanning approximately all of calendar year 2001)
- . Year 3 - Season 33 of the Program (spanning approximately all of calendar year 2002)

Unless either CTW or LookSmart provides the other with a written notification terminating this Agreement upon the conclusion of Year 3 (i.e., Season 33 of the Program) by September 1, 2001, the "Term" shall also include the following:

- . Year 4 - Season 34 of the Program (spanning approximately all of calendar year 2003)
- . Year 5 - Season 35 of the Program (spanning approximately all of calendar year 2004)

In the event that the Term concludes with Year 3, CTW shall be free to seek a new sponsor(s) without restriction and without further obligation of any kind whatsoever to LookSmart for the Seasons 34 and 35 of the Program.

3. National Underwriting Credit

(a) CTW and LookSmart agree that LookSmart will receive a 15-second underwriting credit appearing before and after each broadcast of the Program on PBS (the "Billboard"). LookSmart's Billboard will be rotated with other sponsors of the Program. LookSmart and CTW will mutually determine the content and form of the Billboard. All aspects of LookSmart's sponsorship of the Program, including the Billboard, shall be in accordance with PBS sponsorship guidelines and policies and FCC rules and regulations in force at the time of broadcast. LookSmart will produce and deliver its Billboard to CTW according to a mutually agreed upon schedule.

(b) LookSmart will be the exclusive national underwriter (i.e., receiving sponsorship credits before and after the show) for the PBS broadcast of the Sesame Street TV series in the category of Internet search engine/directory.

(c) Parties agree that LookSmart will be recognized as a sponsor of the Program on all appropriate press materials for the Program on PBS, as determined by CTW.

4. PBS

(a) Promotional Benefits on www.PBS.org

(i) CTW agrees to place a sponsor button on the homepage of the Sesame Street content on PBS's website, located at www.PBS.org, linking to a bridge page which shall in turn link to the homepage of LookSmart's website, www.looksmart.com ("Sponsor Button"). Parties shall agree upon the location, size, font, and format of such Sponsor Button, which must comply with the PBS Kids Sponsorship Guidelines, as may be modified from time to time by PBS.

(ii) PBS and CTW agree that no other company in LookSmart's category (i.e., Internet search engine/directory) will be promoted within the Sesame Street site on PBS's website as a sponsor or in a banner advertisement, if any, during the Term. PBS currently does not allow banner advertising on any kids sites within PBS Online.

(iii) Parties agree to discuss in good faith further promotional opportunities within the Sesame Street content on PBS's website for LookSmart's sponsorship of the Program.

(b) Other Promotional Efforts

(i) Parties agree to cooperate on a press effort announcing LookSmart's sponsorship of the Program and LookSmart's relationship with PBS.

(ii) PBS, on behalf of the PBS Sponsorship Group, agrees to assign a client service person to LookSmart in connection with its sponsorship of the Program.

(c) Payment to PBS

Any payments due to PBS from CTW based on this Agreement shall be made in accordance with prior agreement between PBS and CTW.

5. Payments and Expenses

(a) In consideration for the underwriting credit and other sponsorship benefits (including the promotional benefits), LookSmart guarantees it will pay CTW One Million Nine Hundred and Fifty Thousand Dollars (\$1,950,000.00) per year, in accordance with the following payment schedule:

| | | |
|--|--------------|--------------------------------------|
| Year 1: | | |
| | \$487,500.00 | Upon execution of this Agreement |
| | \$487,500.00 | Upon initial broadcast of Year 1 |
| (currently | | scheduled for December 1999) |
| | \$487,500.00 | Three months after initial broadcast |
| | \$487,500.00 | Six months after initial broadcast |
| Years 2 and 3 (and 4 and 5, if applicable) | | |
| | \$975,000.00 | Upon initial broadcast of each Year |
| | \$487,500.00 | Three months after initial broadcast |
| | \$487,500.00 | Six months after initial broadcast |

LookSmart will make any such other payments as specifically provided elsewhere in this Agreement, if any.

(b) LookSmart shall make such payments to CTW by (i) check payable to Children's Television Workshop and sent to Children's Television Workshop, P.O. Box 5539 GPO, New York, NY 10087-5539, or (ii) sending a wire transfer the amount due to Morgan Guaranty Trust Company, ABA Number 031-100-238, for the account of Children's Television Workshop, Account No. 162-54-451.

(c) All sums payable to CTW under this Agreement that are not paid within 30 days of the due date will accrue interest from the date until the date paid, at the highest rate permissible by law.

(d) Except as expressly stated, each party will be responsible for paying its own costs and clearing all third party rights in connection with fulfilling its obligations under this Agreement.

6. Ownership

(a) As between the parties, CTW shall own all rights, title and interest (including all copyrights and all renewals and extensions of such copyrights) throughout the world in perpetuity in all current and future media to the "Sesame Street" programs, the Sesame Street Muppet characters, "Sesame Street" name, any sponsorship tagline or logo created (excluding any LookSmart trademark incorporated into the tagline or logo), and all materials created in connection with the foregoing. Except as expressly stated in the Agreement, CTW shall be free to exercise such rights at any time without any obligation to the other parties.

(b) Except as provided in Paragraph 7(a), LookSmart shall own all rights, title and interest (including all copyrights and all renewals and extensions of such copyrights) throughout the world in perpetuity in all current and future media to its underwriting credit, any trademark or trade name owned or controlled by LookSmart and any materials created by LookSmart in connection with the foregoing.

7. Approvals

(a) CTW shall have prior written approval over LookSmart's Billboard.

(b) Each party shall have prior written approval over any use by any other party, in accordance with this Agreement, of trade names, trademarks or copyrights owned or controlled by it. CTW's approval rights include approval of any reference to LookSmart's sponsorship of the Program in any LookSmart materials.

(c) Each party will be reasonable in exercising its approval rights under this Agreement.

8. Termination

In addition to any other grounds for termination specifically provided for in this Agreement, CTW and LookSmart shall have the right to terminate this Agreement if

the other party breaches any of its material obligations and fails to cure such breach within 30 days of written notice of the breach. Except just as stated no party has the right to cancel any of its obligations under this Agreement. Upon termination of the Agreement, LookSmart will immediately discontinue using any material referring to LookSmart's sponsorship of the Program and return all such materials belonging to CTW. In the event that the termination is due to a material breach by LookSmart, all payments not yet made shall become immediately due and payable to CTW.

9. No Sublicensing or Assignment

(a) Neither CTW nor LookSmart may sublicense or assign any of its rights or obligations under the Agreement without the prior written consent of the other parties.

(b) In the event that LookSmart intends to enter into a transaction or series of transactions that will result in the transfer of (i) all or substantially all of LookSmart's assets, stock or indicia of ownership to any entity other than an existing affiliate, (ii) 25% or more of the outstanding voting securities of LookSmart, or (iii) the right to name 25% or more of the member of the board of directors or other managing body of LookSmart, LookSmart shall immediately give written notice to CTW and CTW shall have the right to elect not to continue this Agreement with the newly controlling entity, thereby immediately terminating this Agreement. If CTW does not elect to terminate this Agreement, then this Agreement will continue with the newly controlling entity. LookSmart shall cooperate with CTW and provide relevant information to CTW to assist CTW in making such determination.

10. Representations and Warranties

Each of CTW and LookSmart represents and warrants that the materials it furnishes for use by the other party under this Agreement will not infringe or violate the rights of any third party if used as authorized. LookSmart represents and warrants that it will use the Sesame Street brand and materials furnished by CTW only as permitted under this Agreement and will exercise its rights under this Agreement in compliance with all applicable laws and regulations.

11. Indemnity

Each of CTW and LookSmart and PBS shall at all times indemnify and hold harmless the other party and their trustees, directors, officers, employees and agents from and against the full amount of all losses, liabilities and expenses (including reasonable attorney's fees) of any kind due to a third party claim arising out of the indemnifying party's breach of any of its agreements, representations or warranties under this

Agreement. The indemnified party will give the indemnifying party prompt written notice of any claim and the indemnifying party will have full control of the defense of such litigation. The indemnified party will have the right, at its sole cost and expense, to participate in the defense of any such claim.

12. Notice

All notices, requests for approvals, and approvals under this Agreement shall be in writing and mailed, express delivered, or faxed to the other party.

To CTW:

Sherrie Rollins Westin
Executive Vice President, Marketing and Communications Children's Television Workshop One Lincoln Plaza
New York, NY 10023

With a copy to

Dan Victor, Esq.

Executive Vice President and General Counsel

Children's Television Workshop One Lincoln Plaza
New York, NY 10023

To LookSmart:

To PBS:

Michael Diefenbach
Vice President, Sponsor Development
PBS
1320 Braddock Place
Alexandria, VA 22314

With a copy to

Office of the General Counsel PBS

1320 Braddock Place
Alexandria, VA 22314

13. Force Majeure

In the event that production or broadcast of the Program is delayed or canceled by reason of act of God, fire, lockout, strike or other labor dispute, riot or civil disorder, war or armed insurrection, enactment, rule, act or order of government, mechanical failure, or any other force majeure cause or reason beyond CTW's control, then CTW shall produce and/or arrange for broadcast distribution as soon as practicable after any such event.

14. Entire Agreement

(i) This Agreement constitutes the entire agreement between the parties and the parties may make any changes only in writing. This Agreement, and its construction and effect, will be determined and construed in accordance with the substantive laws of the state of New York (without reference to conflict of laws) with respect to agreements to be fully performed in New York State.

(ii) This Agreement in no way alters the agreement between CTW and PBS with respect to underwriting of the Program.

ACCEPTED AND AGREED

CHILDREN'S TELEVISION WORKSHOP

By /s/ Daniel Victor

Name Daniel Victor

*Title EVP, Legal and Business Affairs
and General Counsel*

LOOKSMART, LTD

By /s/ Val Landi

Name Val Landi

Title SR VP/Marketing & Media Services

AS TO PARAGRAPHS 4(a)(ii), 4(a)(iii), 4(b), 4(c), 7(b), 7(c), 11, 12 and 14
ONLY:

PUBLIC BROADCASTING SERVICE

By /s/ Michael Diefenbach

Name Michael Diefenbach

Title Vice Pres., Sponsor Development

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Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the prospectus constituting part of this Registration Statement on Form S-1 of our report dated May 7, 1999, relating to the consolidated financial statements and financial statement schedule of LookSmart, Ltd. and Subsidiaries. We also consent to the references to us under the headings "Experts" and "Selected Consolidated Financial Data" in such prospectus. However, it should be noted that PricewaterhouseCoopers LLP has not prepared or certified such "Selected Consolidated Financial Data."

*/s/ PricewaterhouseCoopers
LLP*

San Francisco, California

July 27, 1999

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the prospectus constituting part of this Registration Statement on Form S-1 of our report dated April 7, 1999, relating to the financial statements of BeSeen.com, Inc., which appears in such prospectus. We also consent to the reference to us under the heading "Experts" in such prospectus.

*/s/ PricewaterhouseCoopers
LLP*

San Francisco, California

July 27, 1999

Exhibit 23.3

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated March 24, 1999 (except for Note 6, as to which the date is April 9, 1999), with respect to the financial statements of Guthy- Renker Internet, LLC included in the Registration Statement (Form S-1 No. 333- 80581) and related Prospectus of LookSmart, Ltd. for the registration of 13,800,000 shares of its common stock.

LLP

/s/ Ernst & Young

Riverside, California

July 27, 1999

Exhibit 23.4

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the prospectus constituting part of this Registration Statement on Form S-1 of our report dated June 4, 1999, relating to the financial statements of ITW NewCorp, Inc. which appears in such prospectus. We also consent to the reference to us under "Experts" in such prospectus.

*/s/ PricewaterhouseCoopers
LLP*

San Francisco, California

July 27, 1999

Exhibit 23.5

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the prospectus constituting part of this Registration Statement on Form S-1 of our report dated June 4, 1999, relating to the financial statements of HomeBase Directories Pty Ltd., which appears in such prospectus. We also consent to the reference to us under the heading "Experts" in such prospectus.

*/s/ PricewaterhouseCoopers
LLP*

San Francisco, California

July 27, 1999

ARTICLE 5
RESTATED:
MULTIPLIER: 1,000

| PERIOD TYPE | YEAR |
|--------------------------------|-------------|
| FISCAL YEAR END | DEC 31 1998 |
| PERIOD START | JAN 01 1998 |
| PERIOD END | DEC 31 1998 |
| CASH | 3,501 |
| SECURITIES | 0 |
| RECEIVABLES | 2,895 |
| ALLOWANCES | (127) |
| INVENTORY | 0 |
| CURRENT ASSETS | 7,248 |
| PP&E | 1,979 |
| DEPRECIATION | (675) |
| TOTAL ASSETS | 14,090 |
| CURRENT LIABILITIES | 13,755 |
| BONDS | 0 |
| PREFERRED MANDATORY | 0 |
| PREFERRED COMMON | 26 |
| OTHER SE | 19 |
| TOTAL LIABILITY ANDEQUITY | (1,306) |
| SALES | 14,090 |
| TOTAL REVENUES | 8,785 |
| CGS | 8,785 |
| TOTAL COSTS | 0 |
| OTHER EXPENSES | 1,586 |
| LOSS PROVISION | 19,097 |
| INTEREST EXPENSE | 127 |
| INCOME PRETAX | (675) |
| INCOME TAX | (12,712) |
| INCOME CONTINUING DISCONTINUED | 146 |
| EXTRAORDINARY CHANGES | (12,858) |
| NET INCOME | 0 |
| EPS BASIC | 0 |
| EPS DILUTED | (0.68) |
| | (0.68) |

End of Filing