LookSmart Reports Second Quarter 2002 Results

SAN FRANCISCO, July 25 /PRNewswire-FirstCall/ -- LookSmart (Nasdaq: LOOK; ASX: LOK), a global leader in search targeted marketing, today announced financial results for the second quarter ended June 30, 2002.

Financial Highlights:

Revenue Increases to $21.0M: Revenue for the second quarter grew to $21.0 million, a 5% increase from $20.1 million in the first quarter 2002 and a 14% increase from $18.4 million in the second quarter 2001. This revenue increase is at the top of the range of the Company's positive guidance update given on June 24, 2002.

Listings Revenue Grows 13%: LookSmart reported continued strong growth in listings with revenue of $15.2 million, a 13% increase over $13.4 million in the prior quarter and an 88% increase over $8.1 million in the second quarter 2001. This is the ninth consecutive quarter that LookSmart has reported double-digit growth in paid listings, which now represents 73% of total revenue.

Paid Clicks Increase 24%: LookSmart recorded 87 million total paid clicks for the second quarter, a 24% increase over 70 million in the first quarter 2002 and a 74% increase over 50 million clicks in the second quarter 2001. The increase was driven by strong growth in the large business segment as well as the first-time inclusion of small business listings clicks that now follow the pay-per-click model.

Small Business Revenue: Small business listings revenue was $2.0 million, which is within the guidance range for the new small business listings product. In less than three months LookSmart signed up nearly 19,000 small business listings and now has a solid base on which to grow this recurring revenue stream. The decline from the first quarter 2002 revenue was expected given the change from a one-time fee product to a pay-per-click product for small business customers.

EBITDA Profit: LookSmart reported an EBITDA profit (earnings before interest, tax, depreciation, amortization and certain other items) of $1.8 million or $0.02 per share, which is at the top of the Company's upwardly revised guidance. This compares to $2.8 million or $0.03 per share in the prior quarter and a loss of ($0.02) per share in the second quarter of 2001. GAAP net loss for the second quarter was ($0.8 million) or ($0.01) per share compared to a net loss of ($5.4 million), or ($0.06) per share in the first quarter, and ($13.7 million) or ($0.15) per share in the prior year quarter.

Cash Grows by $2.5M to $48.7M: Unrestricted cash and short-term investments grew by $2.5 million over the prior quarter to $48.7 million as of June 30, 2002. This is the third consecutive quarter that LookSmart has generated unrestricted cash.

- Key Operating Metrics: Q2 '01 Q1 '02 Q2 '02
- Paid Clicks (millions) 50 70 87
- Average Revenue-per-Click $0.23 $0.18 $0.19
- Average Distribution Costs 40% 34% 42%
- Small Business Revenue (millions) $2.8 $3.1 $2.0*
- New Product

Business Highlights:

"LookSmart is executing well on our key drivers for growth. During the quarter, we saw strong demand for our paid listings from both large and small customers. The increase in relevance of search results from the implementation of WiseNut technology enhances the value proposition LookSmart offers both advertisers and distribution partners. As a result of these improvements, we signed a new distribution deal with About.com and continued our strong momentum with large customers, with several significantly expanding their campaigns across the LookSmart network," said Jason Kellerman, LookSmart's Chief Operating Officer and CEO-elect.

Strong Listings Growth

Large customer listings revenue grew by 28 percent quarter over quarter driven by significant new customer acquisition as well as increased spending from existing customers. Notable customer wins for the quarter include Wal- Mart, Crate and Barrel, 21st Century Auto Insurance, 24-Hour Fitness, Holland America Cruises and Motorola. These customers join existing blue-chip

customers Amazon, Bank of America, Dell, eBay, Lands End, Nestle USA, Nordstrom, Patagonia, REI, Spiegel, Staples and Ziff Davis. The acquisition of these top tier customers demonstrates increasing acceptance of search listings as an important marketing tool.

On April 9, LookSmart successfully launched its new Small Business Listings product. The new product provides cost-effective customer acquisition by enabling small businesses to be included in the LookSmart directory and receive qualified leads to their Web sites, paying for the traffic on an efficient per-click basis.

New Distribution

As announced in a separate press release today, LookSmart signed a new distribution deal with About.com to distribute search results on About.com and its network. The agreement enables LookSmart advertisers to access 20 million unique users each month through the About Network, ranked as the ninth largest Web brand by NetRatings (Nielsen/NetRatings, June 2002, MarketView Reporting).

During the quarter, LookSmart also announced an expanded relationship with InfoSpace to deliver its search results to Excite and Webcrawler. LookSmart search listings now appear on InfoSpace's meta-search product found at Excite and WebCrawler, and will continue to appear on InfoSpace's other sites, Dogpile and MetaCrawler.

WiseNut Integration Enhances Offering to Portals

In April LookSmart completed the acquisition of WiseNut, a leading search technology that generates highly relevant search results. During the quarter LookSmart completed the first integration phase of the WiseNut technology, which now powers search results throughout the LookSmart Network. With the integration of WiseNut, LookSmart's current and potential portal and ISP partners will benefit by providing their users with a more relevant search experience.

Primary Knowledge Integration Enhances Value Proposition to Advertisers

As announced on July 23, LookSmart formally introduced the LookSmart Reporting Center, a business intelligence platform that will enable LookSmart's large customers to monitor and optimize the performance of their search marketing campaigns. By using the center -- an added benefit for customers -- marketers can see results for their LookSmart campaigns in one place and in one format and can analyze their campaign's effectiveness using detailed reports -- by campaign, product, URL, creative and keyword. The new business intelligence platform is based on the technology obtained through LookSmart's 2001 acquisition of the assets of Primary Knowledge, an early leader in outsourced e-business intelligence services.

Management Changes

Jason Kellerman, currently LookSmart's Chief Operating Officer, has been promoted to Chief Executive Officer, effective October 1, 2002. Evan Thornley, Chairman and current CEO of LookSmart, will continue as Chairman.

Brian Cowley has been named Senior Vice President, Business Development. Brian joins LookSmart from eBay, where he ran the sponsorship and services business unit. Mr. Cowley played an integral role in closing recent distribution deals for the Company and will leverage his strong personal relationships across the industry to forge new distribution and partnership agreements for LookSmart.

Conference Call

LookSmart will hold a conference call today, July 25, to discuss first quarter results at 6:00 p.m. ET today (8:00 a.m. Australian ET, July 26, 2002) to discuss the results. To listen to the call from the U.S., dial 1-800-218- 4007; from Australia, dial 1-800-730-220. A replay of the call will be available until July 29, 2002, 11:59 p.m. PT. To access the replay from the U.S., dial 800-405-2236 and enter passcode 486404#; from outside the U.S., dial 303-590-3000 and enter passcode 486404#.

The call will also be available live by webcast on LookSmart's Investor Relations Web site at http://www.shareholder.com/LookSmart/ . For more information about the conference call, please contact Investor Relations at 415-348-7000 or investor@LookSmart.net.

About LookSmart

LookSmart helps businesses of all sizes harness the power of Search Targeted Marketing to generate cost-effective sales leads. LookSmart search listings enable businesses to reach 77 percent* or nearly four out of five U.S. Internet users, through top portals and ISPs including Microsoft's MSN, AltaVista, Netscape Netcenter, Prodigy, CNN, Road Runner, Cox Interactive Media, InfoSpace (Excite, Dogpile, MetaCrawler, WebCrawler) and Ask Jeeves, and search services such as Inktomi. BT LookSmart, LookSmart's joint venture with BT, provides Search Targeted Marketing solutions in the U.K. and Japan. LookSmart

is based in San Francisco, California, with offices in Los Angeles, New York, Detroit, Montreal, London, Melbourne and Sydney.

- Media Metrix December 2001 Digital Media Audience Ratings

Forward-Looking Statements

This press release contains forward-looking statements, such as references to expected or future revenues, time lines for integration of technology or roll-out of new products, future product developments and trends, industry projections or other characterizations of future events or circumstances. These statements, including their underlying assumptions, are subject to risks and uncertainties and are not guarantees of future performance. Results may differ due to various factors, such as the possibility that we will not complete the integration of WiseNut or Primary Knowledge technology into our systems and products in a timely manner; that small businesses will not adopt our Small Business Listings platform or pay recurring revenues at expected rates in future quarters; that we may not be able to enter into new distribution agreements and expand our distribution network on satisfactory terms, if at all; that we may fail to derive substantial revenues from new and existing products; that we may fail to develop and maintain good business relationships with our distribution partners; or that we may have an unexpected increase in costs, expenses or other factors contributing to our burn rate. In addition, you should read the risk factors detailed in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission.

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

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

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

	Three Months Ended 30-Jun		Six Months Ended 30-Jun	
	2001	2002	2001	2002
Revenues:				
Listings	$8,089	$15,230	$14,511	$28,656
Advertising	6,830	1,708	15,345	4,281
Licensing	2,924	3,791	8,049	7,500
Ecommerce	525	231	8,496	573
Total revenues	18,368	20,960	46,401	41,010
Cost of revenues:				
Listings	1,971	6,567	3,217	10,249
Advertising	1,341	1,349	2,684	2,723
Ecommerce	329	1	5,338	64
Total cost of revenues	3,641	7,917	11,239	13,036
Gross profit	14,727	13,043	35,162	27,974
Operating expenses:				
Sales and marketing	9,513	4,254	26,781	11,436
Product development	6,819	5,163	15,646	12,180
General and administrative	2,849	2,294	6,006	4,990
Amortization of goodwill and intangibles	1,636	--	3,757	--
Asset impairment and restructuring charges	2,357	--	11,791	--
Total operating expenses	23,174	11,711	63,981	28,606
Loss from operations	(8,447)	1,332	(28,819)	(632)

Non-operating income (expenses)	(5,001)	(2,128)	(8,892)	(4,542)
Loss from continuing operations before income taxes	(13,448)	(796)	(37,711)	(5,174)
Income taxes & minority interest	(44)	(10)	(76)	(24)
Loss from continuing operations	(13,492)	(806)	(37,787)	(5,198)
Loss on discontinued operations	(253)	--	(515)	(972)
Net loss	(13,745)	(806)	(38,302)	(6,170)
Add back to calculate EBITDA:				
Depreciation **	1,622	1,519	3,261	3,164
Amortization of goodwill and intangibles	1,636	436	3,757	611
Amortization of deferred stock compensation	746	551	1,861	1,104
Stock compensation related to variable options**	--	(1,989)	--	358
Non-operating (income) expenses	5,001	2,128	8,892	4,542
Asset impairment and restructuring charges	2,357	--	11,791	--
Income taxes & minority interest	44	10	76	24
Loss on discontinued operations	253	--	515	972
	11,659	2,655	30,153	10,775
EBITDA	($2,086)	$1,849	($8,149)	$4,605

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

LOOKSMART, LTD.
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(In thousands, except per share amounts)

	Three Months Ended 30-Jun		Six Months Ended 30-Jun	
	2001	2002	2001	2002
Net income/(loss) per common share:				
EBITDA income /(loss) loss per share	($0.02)	$0.02	($0.09)	$0.05
Basic and diluted net (loss) per share				
Loss from continuing operations	($0.15)	($0.01)	($0.41)	($0.05)
Loss from discontinued				

operations	$0.00	$0.00	($0.01)	($0.01)
Net loss	($0.15)	($0.01)	($0.42)	($0.06)
Weighted average shares outstanding	91,511	96,690	91,362	96,082
Depreciation detail				
Cost of revenues	$506	$470	$1,009	$953
Sales and marketing	168	152	321	297
Product development	854	835	1,746	1,777
General and administrative	94	62	185	137
Total depreciation	$1,622	$1,519	$3,261	$3,164
Amortization of deferred stock compensation detail				
Cost of revenues	$ --	$ --	$ --	$ --
Sales and marketing	444	245	1,024	512
Product development	282	279	586	523
General and administrative	20	27	251	69
Total amortization of deferred stock compensation	$746	$551	$1,861	$1,104
Stock compensation related to variable options				
Cost of revenues	$ --	($36)	$ --	$7
Sales and marketing	--	(657)	--	118
Product development	--	(820)	--	148
General and administrative	--	(476)	--	85
Total stock compensation related to variable options	$ --	($1,989)	$ --	$358

Note: In accordance with generally accepted accounting principles, the three and six months ended June 30, 2001 have been restated to reflect the results of the Futurecorp subsidiary, which was disposed of on March 13, 2002, as discontinued operations.

LOOKSMART, LTD
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands)

	31-Dec-01	30-Jun-02
ASSETS		
Cash	$29,766	$47,717
Short-Term Investments	14,346	999
Total Unrestricted Cash and Short-Term Investments	44,112	48,716
Restricted Cash	3,728	3,105
Accounts Receivable, net	9,820	8,501
Other Current Assets	3,141	2,446
Total Current Assets	60,801	62,768
Property, Plant and Equipment, net	10,272	9,814
Goodwill and Intangibles, net	9,969	15,897
Other Assets	5,060	3,924
Total Assets	$86,102	$92,403

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts Payable	$2,323	$1,147
Deferred Revenue	9,152	8,252
Current Portion of Long-Term Debt	--	37,968
Other Current Liabilities	14,647	13,800
Total Current Liabilities	26,122	61,167
Long Term Liabilities	36,336	1,787
Total Liabilities	62,458	62,954
Total Stockholder's Equity	23,644	29,449
Total Liabilities and Stockholders' Equity	$86,102	$92,403

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