Answers CORP
Form 424B5
January 16, 2008

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-144630

SUBJECT TO COMPLETION, DATED JANUARY 16, 2008

$100,000,000

14,947,683 Shares
Common Stock

Answers Corporation is selling 14,947,683 shares of our common stock. We have granted the underwriters a 30-day option to purchase up to an additional 2,242,152 shares from us to cover over-allotments, if any.

Our common stock is traded on the Nasdaq Global Market under the symbol ANSW. On January 15, 2008, the last reported sale price for our common stock was $6.69 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE RISK FACTORS BEGINNING ON PAGE S-16.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus or the accompanying base prospectus. Any representation to the contrary is a criminal offense.

Thomas Weisel Partners LLC **Canaccord Adams**

Stifel Nicolaus **ThinkEquity Partners LLC** **Maxim Group LLC**

The date of this prospectus supplement is , 2008

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus supplement and the accompanying base prospectus. We are offering to sell shares of common stock and seeking offers to buy common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement and the accompanying base prospectus is accurate only as of the date of this prospectus supplement and the accompanying base prospectus, regardless of the time of delivery of this prospectus supplement and the accompanying base prospectus or any sale of the common stock.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying base prospectus are part of a shelf registration statement that we have filed with the Securities and Exchange Commission, or SEC. Each time we sell securities under the accompanying base prospectus we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the price, the amount of securities being offered and the plan of distribution. The shelf registration statement was declared effective by the SEC on August 6, 2007. This prospectus supplement describes the specific details regarding this offering, including the price, the amount of common stock being offered, the risks of investing in our common stock and the underwriting arrangements. The accompanying base prospectus provides general information about us, some of which, such as the section entitled Plan of Distribution, may not apply to this offering.

If information in this prospectus supplement is inconsistent with the accompanying base prospectus or the information incorporated by reference, you should rely on this prospectus supplement. You should read both this prospectus supplement and the accompanying base prospectus together with the additional information about Answers Corporation to which we refer you in the section of the accompanying base prospectus entitled Where You Can Find More Information.

In this prospectus supplement, Answers, we, us and our refer to Answers Corporation and its subsidiary and Lexico refers to Lexico Publishing Group, LLC. Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the underwriters overallotment option.

We use various trademarks and trade names in our business, including without limitation Answers.com, AnswerTips, WikiAnswers, 1-Click Answers, AnswerRank and Brainboost. Lexico uses various trademarks and trade names in its business, including without limitation Dictionary.com, Thesaurus.com, Reference.com and Lexico. This prospectus supplement also contains trademarks and trade names of other businesses that are the property of their respective holders.

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PROSPECTUS SUPPLEMENT SUMMARY

You should read the following summary together with the more detailed information concerning our company, the common stock being sold in this offering and our financial statements appearing in this prospectus supplement and the accompanying base prospectus and in the documents incorporated by reference in this prospectus supplement and the accompanying base prospectus. Because this is only a summary, you should read the rest of this prospectus supplement and the accompanying base prospectus, including all documents incorporated by reference, before you invest in our common stock. Read this entire prospectus supplement and the accompanying base prospectus carefully, especially the risks described under Risk Factors and the financial statements and related notes, before making an investment decision.

Answers Overview

We are a leading online answer engine. Our Web properties currently consist of Answers.com and WikiAnswers.com. We offer information related to over 4 million topics based on content from brand-name publishers, our WikiAnswers community and our proprietary natural language search technology, which we refer to as Answers from the Web. Answers.com combines and presents targeted information from disparate sources and delivers answers to users questions in a single consolidated view. WikiAnswers.com is a user-generated content, or UGC, community-based question and answer site. According to comScore, a global Internet information provider, our Web properties had approximately 15.4 million unique visitors in November 2007, which ranks Answers Corporation number 58 in the top U.S. Web properties. Our goal is to become the premier online provider of and leading destination for answers on any topic.

According to our internal estimates, our Web properties had approximately 480 million page views during the fourth quarter of 2007. During the same period, based on these estimates, approximately 65% of our traffic was generated by search engines; 10% by the definition link appearing on Google s website result pages; and 25% from direct traffic, which consists of traffic resulting from a direct type-in of our URL, a bookmarked Favorite, a direct link from other Web properties, or a downloaded toolbar.

We believe our valuable content and overall user experience drives traffic to our Web properties, which in turn drives advertising revenue. Our revenue is derived primarily from third party ad networks, which aggregate Web properties looking to monetize their Web traffic and advertisers seeking to advertise on the Internet. We recently began marketing directly to advertisers, and we believe that our direct advertising efforts will be the primary driver of future monetization improvements.

Overview of Lexico Acquisition

On July 13, 2007, we entered into a purchase agreement with the members of Lexico Publishing Group, LLC, a California limited liability company, to acquire all of the outstanding limited liability interests of Lexico for an aggregate purchase price of $100 million in cash, subject to adjustments for closing net working capital, which amounted to an addition of approximately $2.7 million as of September 30, 2007, and certain transaction expenses of Lexico. Our transaction expenses incurred in connection with this acquisition are estimated to be approximately $2.2 million. According to the terms of our agreement, $10 million of the purchase price may be paid to the employees of Lexico, subject to certain terms and conditions. In addition, $10 million, or the hold back amount, of the purchase price will secure the indemnification obligations of the members under the agreement, as well as any post-closing purchase price adjustments for net working capital and transaction expenses. If the over-allotment option is exercised by the underwriters of this offering, we intend to use the net proceeds from such exercise to place in escrow all or a portion of the hold back amount. Otherwise, at our election, we may place in escrow or hold back all or a portion of the hold back amount for a period of 24 months from the closing date of the acquisition. The hold back amount will accrue interest at a rate of 7% per annum to be paid at maturity. If we choose to hold back all or a portion of the hold back amount, our obligation to pay the hold back amount and any accrued interest, to the members of Lexico will be secured by a security interest in all of our assets and intellectual property. This security interest will be subordinated to a security interest that we will grant to the holders of our senior secured convertible notes in connection with the senior secured convertible notes financing described below.

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Consummation of the acquisition of Lexico is subject to our ability to secure financing for the acquisition, as well as customary conditions to closing, including absence of any legal prohibition on consummation of the acquisition, obtaining governmental and third party consents, the accuracy of the representations and warranties, and delivery of customary closing documents. We intend to use the net proceeds from this offering and $8.5 million from the sale of our senior secured convertible notes to fund the Lexico acquisition.

Lexico Overview

Lexico owns and operates Dictionary.com, Thesaurus.com, and Reference.com. Dictionary.com and Thesaurus.com are two of the most popular destinations on the Internet for information related to words, including definitions, synonyms and antonyms. According to research firm Hitwise, the word dictionary ranked as the second most searched generic term on the Internet in 2006. Based on Lexico s internal estimates, Lexico had more than 1.4 billion page views during the fourth quarter of 2007. According to comScore, Lexico s Web properties had approximately 15.1 million unique visitors in November 2007, which ranks Lexico number 60 in the top U.S. Web properties. During the fourth quarter of 2007, we believe, based on information provided by Lexico, that approximately 88% of Lexico s traffic was direct traffic, while the remaining 12% was generated by search engines.

Acquisition Benefits

We believe the Lexico acquisition will provide the combined company with the following key benefits:

Increased Direct Traffic. Historically, we have relied heavily on search engines for a substantial portion of the traffic on our Web properties. During the fourth quarter of 2007, we estimate that approximately 65% of our traffic was generated by search engines. Consequently, indexing algorithm changes and other actions taken by search engines can and have caused significant declines in our traffic. During the same period, we believe, based on information provided by Lexico, that approximately 12% of Lexico s traffic was generated by search engines. As a result, Lexico is less susceptible to the loss of traffic as a result of actions taken by search engines. Based on fourth quarter 2007 data, following the acquisition, we expect that the combined company will have significantly less search engine concentration with approximately 26% of our combined traffic being generated by search engines.

Improved Lexico Traffic Monetization. Over the last few years we have significantly improved the monetization rates of our Web traffic. Historically, we have monetized our Web traffic more effectively than Lexico, resulting in comparatively greater revenue per page. Since our announcement of the Lexico acquisition, Lexico has significantly improved their monetization rates and we believe that this improvement is due to Lexico s implementation of many of the same techniques we have utilized to increase our own monetization rates. We believe, based on Lexico s current monetization practice and rates, that we will be able to further increase Lexico s revenue per page in the near term.

Reduced Reliance on Traffic from the Google Definition Link. We estimate that the traffic directed to Answers.com from the definition link appearing on Google s website search result pages accounted for approximately 10% of the traffic to our Web properties during the fourth quarter of 2007. Following the acquisition of Lexico, we believe the percentage of traffic from the Google definition link will account for less than 5% of our combined traffic.

Increased Growth of the WikiAnswers Community. The acquisition of Lexico will provide us with additional traffic that we can direct to our WikiAnswers Web property. We believe that this will expand the size, scope and activity of the WikiAnswers community, increasing the overall user value proposition.

Increased Operating Scale and Broadened Portfolio of Web Properties. The acquisition of Lexico will broaden our portfolio of Web properties, further establishing us as a leading online answer engine. Based on November 2007 comScore data, the addition of Lexico s Web properties would have increased our unduplicated reach to approximately 27.3 million monthly unique visitors, which would have ranked us number 22 in the top U.S. Web properties. We believe that increasing

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our scale will further help us attract, retain and more deeply engage users, make us increasingly attractive to advertisers and strengthen our employee recruiting efforts.

Improved Operating Efficiencies. We expect to benefit from moderate savings on costs and expenses relating to headcount, content and other expenses.

Recent Events

Fourth Quarter Fiscal 2007 Financial Results

Although our and Lexico s financial statements for the three months ended December 31, 2007 are not yet available, the following information reflects estimates of these results based on currently available information.

For the three months ended December 31, 2007, we expect our revenues to be between $2.95 million and $2.98 million and for the three months ended December 31, 2007, Lexico expects its revenues to be between $3.10 million and $3.40 million.

Senior Secured Convertible Notes

On January 15, 2008, we entered into a securities purchase agreement with an institutional investor, or the senior notes investor, for the purchase and sale of $8.5 million aggregate principal amount of our senior secured convertible notes due 2010, or the senior secured convertible notes.

The senior secured convertible notes will mature on December 31, 2010 and bear interest initially at a rate of 8%. The interest rate will be reduced to 7% if we obtain shareholder approval to increase the number of our authorized shares of common stock, and register with the SEC the senior secured convertible notes and all shares of common stock underlying the senior secured convertible notes. Interest on the senior secured convertible notes will accrue daily, calculated on the basis of actual days elapsed over a 360-day year, and will be payable quarterly. Upon any event of default under the senior secured convertible notes, such as our failure to pay the principal or interest when due, the interest rate will be increased to 7% above the then applicable interest rate up to a maximum of 24% until the event of default has been cured. Any amount due under the senior secured convertible notes which is not paid when due shall result in a late charge. In connection with the senior secured convertible notes financing, we granted to the senior notes investor a first priority security interest in all of our assets and intellectual property.

The senior secured convertible notes will be convertible into our common stock at a price per share equal to the lesser of $9.00 and 110% of the price at which our common stock is sold in this offering. This conversion price will be subject to weighted average and other customary anti-dilution adjustments and protections. The senior secured convertible notes will not be convertible to the extent that conversion would result in the holder, together with its affiliates, owning in excess of 9.99% of our outstanding shares of common stock or if the issuance would exceed the aggregate number of shares of common stock which we may issue without breaching the rules and regulations of the Nasdaq Global Market.

The closing of the senior secured convertible notes financing is subject to certain conditions, which include:

- using the proceeds of this offering and the senior secured convertible notes financing to fund the Lexico acquisition on terms and conditions acceptable to the senior notes investor;

- granting the senior notes investor a first priority perfected security interest in all of our assets; and the consummation of the Lexico acquisition before or concurrently with the senior secured convertible notes financing.

If we are unable to obtain shareholder approval to increase the number of our authorized shares of common stock prior to May 30, 2008 (June 30, 2008 in the event that our proxy statement for the shareholder meeting to approve the increase in the number of our authorized shares of common stock is reviewed by the SEC), the interest rate on the senior secured convertible notes will increase from 8% to 12% and will increase by an additional 2% every 2 months that the increase in the number of our

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authorized shares of common stock has not been approved by our shareholders, up to a maximum of 24%. In the event that our shareholders have not approved an increase in the number of our authorized shares of common stock within 25 months after closing of the senior secured convertible notes financing, the holders of the senior secured convertible notes will have the right to force us to redeem their senior secured convertible notes for cash equal to the greater of a make-whole value and 110% of the principal amount of the senior secured convertible notes being redeemed, together with all accrued but unpaid interest. The make-whole value will be calculated by multiplying the conversion amount of the senior secured convertible notes by a make-whole percentage which will be determined on the date on which the make-whole is calculated and based on the price of our common stock during a trading period immediately preceding such date in relation to the conversion price, which is the lesser of $9.00 and 110% of the price at which our common stock is sold in this offering, subject to adjustment.

If our purchase agreement with Lexico is terminated, or if the securities purchase agreement with the senior notes investor is terminated, or if the closing of the senior secured convertible notes financing has not occurred by March 1, 2008, we will be required to pay the senior notes investor a termination fee of $425 thousand in the form of senior secured convertible notes that will be convertible into shares of our common stock at a conversion price equal to the lesser of $9.00 and 110% of the weighted average price of our common stock for the ten trading days following the announcement that our purchase agreement with Lexico has been terminated. Alternatively, if the transaction with Lexico is consummated but the closing of the senior secured convertible notes financing has not occurred, we will be required to pay the senior notes investor a cash termination fee of $365 thousand.

In connection with the senior secured convertible notes financing we entered into a registration rights agreement with the senior notes investor pursuant to which we agreed to file a registration statement with the SEC registering the senior secured convertible notes and the common stock underlying the senior secured convertible notes. If the registration statement has not been filed by the filing deadline described in the registration rights agreement or declared effective by the SEC by the 90th day after the filing deadline, or if sales of all of the securities covered by the registration statement may not be made during the period in which we are required to maintain the effectiveness of the registration statement, we will be required to pay liquidated damages in cash to the senior notes investor in the amount of 1% of the aggregate purchase price of the senior secured convertible notes, or $85,000, for every 30-day period, pro-rated for lesser periods, that the registration statement has not been filed, declared effective or maintained effective.

Options Undertaking

In November 2007, in connection with this offering, our directors, officers and certain current and former employees, who together hold options to purchase an aggregate of 1,646,554 shares of our common stock, executed options undertakings, pursuant to which these directors, officers and current and former employees agreed to refrain from exercising their options until our certificate of incorporation is amended to increase the number of shares of common stock we are authorized to issue, unless the director, officer or current or former employee is earlier released from the options undertaking by our board of directors. If the Lexico acquisition is not consummated by March 1, 2008, the options undertakings will terminate automatically. In addition, we have agreed with the underwriters of this offering not to issue or grant any option or warrant to purchase our securities until an amendment to our certificate of incorporation increasing the number of shares we are authorized to issue has been filed.

Traffic-Related Events

In July 2007, a search engine algorithm adjustment by Google led to a drop in Google directed traffic to Answers.com. This adjustment reduced our overall traffic by approximately 28% based on the average traffic directed to Answers.com from Google for the week prior to the adjustment as compared to the week after. As a result, our revenue declined proportionately. We have not been able to reverse the impact of this adjustment, and we do not anticipate that we will recover the lost traffic and revenue. In response to this Google algorithm adjustment, we reduced our headcount and related compensation costs, reducing our base payroll expenses by approximately 12%. We have recorded a charge of approximately $250,000 in the third quarter of 2007, related to this restructuring.

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In September 2007, Yahoo! dropped our content from its search index, which led to a drop in our Yahoo! directed traffic. This action was reversed within a week, and we have recovered all of our Yahoo! directed traffic.

Industry Overview

The Internet has fundamentally changed how people find, access and extract information. The Internet facilitates the classification of diverse content into searchable categories, enabling users to access information more efficiently than with traditional offline sources. We expect that user demand for Internet-based content will continue to grow quickly due to the increasing number of people using the Internet, the increased amount of time people are spending on the Internet and the efficiency of finding information on the Internet.

Internet users are increasingly consulting other users for information and advice, and sharing experiences and opinions as a community. The information generated by online communities is continually being updated, resulting in fresher and more targeted content than that offered by traditional publishers without the associated costs of producing, editing and updating the content.

We believe high-quality, well written, relevant and unique content from respected sources is critical to engage and retain Internet users in search of information. When users find this type of content, we believe, they are more likely to return directly to the provider of this content.

As users spend more time and money online, advertisers are turning to the Internet to market their products and services. Accordingly, advertising is a primary source of revenue for many Internet content websites.

Strategy

We believe our valuable content and overall user experience drives traffic to our Web properties, which in turn drives advertising revenue. Key elements of our strategy to increase revenue include:

Improve Traffic Monetization. We strive to improve our traffic monetization rates. In August 2006 we began building our direct sales force and in the fourth quarter of 2006 began marketing directly to advertisers. We believe that our direct advertising efforts will be the primary driver of future monetization improvements. In addition, we work with third party ad networks that we believe optimize the average amount of revenue we earn per page view.

Build the WikiAnswers Community. The WikiAnswers community is a source of continuous content creation. We believe the size of the community drives the quantity of the content, content attracts additional users which in turn grows the community. We believe this cyclical pattern is the major source of growth for WikiAnswers. We intend to accelerate this growth by leveraging Lexico s user base and further enhancing WikiAnswers by incorporating new features to maximize user experience.

Expand Content. Content is critical to the success of our business. We plan to continue to offer users high quality, well written, relevant and unique content, which is valued by the user and recognized by the search engine algorithms. Our content strategy includes continuously adding new, rich and unique licensed content as well as proprietary content from our user-generated WikiAnswers community. We also intend to continue offering and enhancing the results and performance of our Answers from the Web natural language search technology.

Strengthen the Answers Brands. We are pursuing a brand development strategy that includes public relations, product features that encourage word-of-mouth sharing, and direct marketing to enhance public awareness of our

Web properties. We believe our branding strategy will help us become the premier online provider of answers on any topic and the leading free destination site for users searching for any type of information.

Enhance the User Experience. We plan to continually enhance the user experience for visitors to our Web properties and further differentiate our Web properties from other online answer engines. We will continue to develop proprietary technologies, such as our Answers from the Web technology, that we believe will allow us to provide a more robust offering and allow us to provide additional features and functionality that users find valuable.

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Seek Future Acquisitions or Strategic Relationships. We actively seek opportunities to enhance our services, improve our content offerings or grow our user base. We will continue to explore additional acquisition opportunities or strategic relationships that complement our current operations and strategy.

Risks

Investing in our common stock involves a high degree of risk. You should carefully consider all of the information in this prospectus supplement, the accompanying base prospectus, and the documents we have incorporated by reference. In particular see Risk Factors beginning on page S-16.

References to Web Property Usage Measurements

Throughout this prospectus supplement, we refer to estimates of traffic. We track the traffic on our Answers.com and WikiAnswers Web properties using two separate systems. Our Answers.com traffic is measured using our internally developed server-side, log-based system. This system is designed to identify traffic from search engine robots and other known Web robots, commonly referred to as Web spiders or Web crawlers, as well as from suspected automated spidering scripts. Traffic from these sources is excluded from the traffic activity measurements.

Through the first quarter of 2007, we reported traffic based on website queries, or traffic directly to one of our Answers.com topic pages. Beginning with the second quarter of 2007, we report traffic based on the more widely recognized industry standard metric of page views. Page views include traffic directly to Answers.com home page, but exclude lookups conducted through 1-Click Answers, AnswerTips and traffic from partners who pay us for providing them our answer-based services.

Based on our internal analysis, we estimate the number of Answers.com page views to be approximately 13% higher than the number of Answers.com queries. This difference is primarily the result of including home page visits in the page view traffic estimates. Traffic and revenue per thousand page views, or RPM, data for the first quarter of 2005 through the second quarter of 2007, as presented in this prospectus supplement, is the result of a conversion of our historical Answers.com query data to estimated page views. The converted Answers.com traffic data represents the product of the historical query data multiplied by 1.13, to adjust historical website query data to the new methodology. Historical RPM for those periods will therefore be approximately 13% lower than amounts reported prior to our quarterly report on Form 10-Q for the quarterly period ended June 30, 2007.

With respect to WikiAnswers traffic, we use Visual Sciences, Inc., formerly known as WebSideStory, Inc., HBX Analytics tag-based web analytics system. Traffic measurements from this system are generated by our placement of tags on our WikiAnswers Web pages. The HBX Analytics system then independently generates traffic metrics. WikiAnswers community-related statistics, including total number of questions, answers and users, are generated from the WikiAnswers Web property.

We also use Google Analytics measurement services. These measurements are generated by our placement of tags on our Web properties pages, which Google Analytics uses to count and report audience metrics independently. We primarily use Google Analytics in cases where other data is unavailable and for purposes of verification of estimates derived from other measurement systems.

Third party services measuring traffic audiences may provide different estimates than the estimates reported by other external services and the estimates reported by internal tracking. These discrepancies may result from differences in methodologies applied or the sampling approaches used by each measuring service.

Throughout this prospectus supplement, we refer to estimates of Lexico s traffic, which is measured using Lexico s internally developed server-side, log-based measurement system for tracking activity and measuring usage on Dictionary.com, Thesaurus.com and Reference.com. Similar to our practice and in compliance with industry standards, Lexico also excludes traffic resulting from the activity of search engine robots and other known Web robots, as well as from suspected automated spidering scripts.

In June 2007, we retained an independent third party consulting firm to analyze and reconcile the systems used to generate traffic estimates for each of Answers.com and the Lexico Web properties. Based

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on the recommendations of the third party independent consulting firm, we made certain minor adjustments to our log-based processing system. We believe that the website traffic data contained in this prospectus supplement reflect a consistent traffic measurement methodology.

Corporate Information

We were incorporated as a Texas corporation in December 1998 and reorganized as a Delaware corporation in April 1999. In October 2005, we changed our name from GuruNet Corporation to Answers Corporation. Our principal executive offices are located at 237 West 35th Street, Suite 1101, New York, NY 10001 and our telephone and fax numbers at this location are 646-502-4777 and 646-502-4778, respectively. In addition, we have an office in Israel located at Jerusalem Technology Park, the Tower, Jerusalem 91481 Israel, and our telephone and fax numbers at this location are +972 649-5000 and +972 649-5001, respectively. Our corporate website address is www.answers.com. The information contained on our Web properties or that can be accessed through our Web properties is not part of this prospectus, and investors should not rely on any such information in deciding whether to purchase our common stock.

Lexico Publishing Group, LLC was formed as a California limited liability company in March 1999. Their principal executive offices are located at 200 Pine Avenue, Suite 20, Long Beach, California 90802 and their telephone and fax numbers at this location are 562-432-7333 and 562-432-7743, respectively. Their corporate website address is www.lexico.com. The information contained on their Web properties or that can be accessed through their Web properties is not part of this prospectus, and investors should not rely on any such information in deciding whether to purchase our common stock.

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THE OFFERING

Common stock offered by us	14,947,683 shares
Common stock to be outstanding after this offering	22,807,573 shares
Use of proceeds	We estimate that the net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately $93.5 million based on the assumed offering price of $6.69 per share (the last reported sales price of our common stock on January 15, 2008). We intend to apply the net proceeds from this offering to fund the Lexico acquisition. This offering will not be consummated if proceeds sufficient to fund the Lexico acquisition are not raised. See Use of Proceeds.
Nasdaq Global Market Symbol	ANSW

The above information assumes no exercise by the underwriters of their over-allotment option and is based upon 7,859,890 shares of our common stock outstanding as of December 31, 2007. This information does not include 3,225,006 shares of common stock subject to outstanding options and warrants and 224,536 shares of common stock reserved for issuance under our stock plans as of December 31, 2007.

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

Answers Corporation

The following tables summarize our summary statement of operations and balance sheet data and should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes that appear elsewhere in this prospectus supplement. The summary consolidated statement of operations data for each of the years ended December 31, 2006 and 2005 are derived from our audited consolidated financial statements that appear elsewhere in this prospectus supplement. We derived the summary consolidated statement of operations data for the nine months ended September 30, 2007 and 2006 and the consolidated balance sheet data as of September 30, 2007 from our unaudited consolidated financial statements that appear elsewhere in this prospectus supplement. The unaudited consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements that appear elsewhere in this prospectus supplement and include, in our opinion, all adjustments that are necessary for a fair presentation of our financial position and results of operation for these periods. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2005	2007	2006
	(in thousands, except share, per share, page view and RPM data)			
Consolidated Statement of Operations Data:				
Revenue	$ 7,029	$ 2,053	$ 8,404	$ 4,523
Costs and expenses:				
Cost of revenue	3,406	1,158	3,643	2,336
Research and development	5,865	2,190	2,239	5,209
Sales and marketing	3,253	1,818	3,275	2,244
General and administrative	3,385	3,404	3,003	2,530
Total operating expenses	15,909	8,570	12,160	12,319
Operating loss	(8,880)	(6,517)	(3,756)	(7,796)
Interest income, net	553	555	299	430
Other expense, net	(176)	(42)	(11)	(220)
Loss before income taxes	(8,503)	(6,004)	(3,468)	(7,586)
Income taxes	(68)	13	(33)	(9)
Net loss	$ (8,571)	$ (5,991)	$ (3,501)	$ (7,595)
Basic and diluted net loss per common share	$ (1.12)	$ (0.88)	$ (0.45)	$ (1.00)
Weighted average shares used in computing basic and diluted net loss per common share	7,673,543	6,840,362	7,844,900	7,632,283
Other Data:				

Adjusted EBITDA(1)	$ (2,289)	$ (4,466)	$ (873)	$ (2,084)
Answers.com average daily page views	3,420,000	1,840,000	4,700,000	3,120,000
Answers.com RPM	$ 5.41	$ 2.63	$ 5.59	$ 5.07

	As of September 30, 2007	
	Actual	**Pro Forma As Adjusted(2)**
	(in thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 5,293	$ 14,609
Working capital	6,816	25,572
Total assets	18,368	128,690
Long-term liabilities	1,158	19,658
Total stockholders equity	$ 14,936	$ 106,436

(1) We define Adjusted EBITDA as net earnings before interest, taxes, depreciation, amortization, stock-based compensation, foreign currency exchange rate differences and certain non-recurring revenues and expenses.

We believe that the presentation of Adjusted EBITDA provides useful information to investors because these measures enhance their overall understanding of the financial performance and prospects of our ongoing business operations. By reporting Adjusted EBITDA, we provide a basis for comparison of our business operations between current, past and future periods. Adjusted EBITDA is used by our management team to plan and forecast our business because it removes the impact of our capital structure (interest expense), asset base (amortization and depreciation), stock-based compensation expenses, taxes, foreign currency exchange rate differences and certain non-recurring revenues and expenses from our results of operations. More specifically, we believe that removing these impacts is important for several reasons:

Adjusted EBITDA disregards amortization of intangible assets and other specified costs resulting from acquisitions. Specifically, we exclude (a) amortization of acquired technology from our acquisition of Brainboost Technology, LLC, or

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Brainboost, developer of the Brainboost Answer Engine, which has been integrated into our Answers from the Web technology; (b) compensation expense resulting from the portion of the stock component of the Brainboost purchase price that was deemed compensation expense; (c) penalty payments to the sellers of Brainboost resulting from our failure to timely register the common stock they received in connection with the acquisition; and (d) amortization of intangible assets relating to our acquisition of WikiAnswers. We believe that excluding these expenses is helpful to investors, due to the fact that they relate to prior acquisitions and are not necessarily indicative of future operating expenses. While we exclude these expenses from Adjusted EBITDA we do not exclude the revenue derived from the acquisitions. The revenue attributable to WikiAnswers.com, in the nine months ended September 30, 2007 and 2006 was $598 thousand and $0, respectively. The revenue attributable to our acquisition of the Brainboost technology is not quantifiable due to the nature of its integration.

We believe that, because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, and the subjective assumptions involved in those determinations, excluding stock-based compensation from Adjusted EBITDA enhances the ability of management and investors to compare financial results over multiple periods.

We believe that, excluding depreciation, interest, foreign currency exchange rate differences and taxes from Adjusted EBITDA provides investors with additional information to measure our performance, by excluding potential differences caused by variations in capital structures (affecting interest expense), asset composition, and tax positions.

Prior to December 2003, we sold lifetime subscriptions to our GuruNet service, generally for $40 per subscription. In December 2003, we decided to alter our pricing model and moved to an annual subscription model, for which we generally charged our subscribers $30 per year. We have not sold subscriptions since our launch of Answers.com in January 2005. In February 2007, we terminated the GuruNet service and recognized $425 thousand of deferred revenue as revenue during the quarter ended March 31, 2007. We believe that the recognition of the $425 thousand of revenue is a one-time, non-cash event and is not reflective of our core business and core operating results, and we have therefore excluded this amount fro