

Answers CORP
Form 10-Q
November 09, 2009

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 2009

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from ___ to ____

Commission File Number: 001-32255

ANSWERS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

98-0202855
(I.R.S. Employer Identification No.)

237 West 35th Street, Suite 1101, New York, New York
(Address of principal executive offices)

10001
(Zip Code)

(646) 502-4777
(Registrant's telephone number)

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated Filer Accelerated filer Non-accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of the registrant's shares of common stock outstanding was 7,936,763 as of November 6, 2009.

ANSWERS CORPORATION

FORM 10-Q

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INTRODUCTORY NOTE

This Report on Form 10-Q for Answers Corporation (“Answers” or the “Company”) may contain forward-looking statements. You can identify these statements by forward-looking words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate” and “continue” or similar words. Forward-looking statements include information concerning possible or assumed future business success or financial results. You should read statements that contain these words carefully because they discuss future expectations and plans, which contain projections of future results of operations or financial condition or state other forward-looking information. We believe that it is important to communicate future expectations to investors. The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties, which are discussed in Item 1A, “Risk Factors” and in other sections of this Form 10-Q and in our other filings with the Securities and Exchange Commission. These risks and uncertainties could cause actual results or events to differ materially from the forward-looking statements that we make.

Although, there may be events in the future that we are not able to accurately predict or control, we do not undertake any obligation to update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future. Accordingly, to the extent that this Form 10-Q contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that Answers' actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements.

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PART I - FINANCIAL INFORMATION

Answers Corporation and Subsidiary

Consolidated Balance Sheets (unaudited, in thousands except share and per share data)

	September 30 2009 \$	December 31 2008 \$
Assets		
Current assets:		
Cash and cash equivalents	21,344	11,739
Accounts receivable	2,257	1,680
Prepaid expenses and other current assets	789	818
Deferred tax asset	17	-
Total current assets	24,407	14,237
Long-term deposits (restricted)	271	257
Deposits in respect of employee severance obligations	1,665	1,337
Property and equipment, net of \$2,606 and \$2,083 accumulated depreciation as of September 30, 2009 and December 31, 2008, respectively	1,838	1,234
Other assets:		
Intangible assets, net of \$898 and \$769 accumulated amortization as of September 30, 2009 and December 31, 2008, respectively	816	994
Goodwill	437	437
Prepaid expenses, long-term, and other assets	227	220
Deferred tax assets long term	24	-
Total other assets	1,504	1,651
Total assets	29,685	18,716
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	436	537
Accrued expenses	717	751
Accrued compensation	1,024	628
Warrant to purchase units of Series B preferred stock and warrants	-	8,698
Capital lease obligation – current portion	81	78
Deferred revenues	-	16
Total current liabilities	2,258	10,708
Long-term liabilities:		
Liability in respect of employee severance obligations	1,770	1,534
Capital lease obligation, net of current portion	44	106

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Deferred tax liability	34	26
Series A and Series B Warrants	8,748	-
Total long-term liabilities	10,596	1,666
Commitments and contingencies		
Series A and B convertible preferred stock: \$0.01 par value; stated value and liquidation preference of \$100 per share; 6% cumulative annual dividend; 130,000 and 60,000 shares authorized, issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	1,796	624
Stockholders' equity:		
Preferred stock: \$0.01 par value; 870,000 and 940,000 shares authorized as of September 30, 2009 and December 31, 2008, respectively, none issued	-	-
Common stock; \$0.001 par value; 100,000,000 shares authorized; 7,936,763 and 7,870,538 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	8	8
Additional paid-in capital	88,867	77,091
Accumulated other comprehensive income (loss)	75	(28)
Accumulated deficit	(73,915)	(71,353)
Total stockholders' equity	15,035	5,718
Total liabilities and stockholders' equity	29,685	18,716

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

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Answers Corporation and Subsidiary

Consolidated Statements of Operations (unaudited, in thousands except share and per share data)

	Three months ended September		Nine months ended September	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenues:				
Advertising revenue	4,970	3,539	14,684	9,536
Answers service licensing	17	24	53	61
	4,987	3,563	14,737	9,597
Costs and expenses:				
Cost of revenue	1,264	945	3,489	3,754
Research and development	921	866	2,611	2,670
Community development, sales and marketing	621	563	1,679	2,258
General and administrative	1,201	1,311	3,666	3,640
Write-off of the Brainboost Answer Engine	-	-	-	3,138
Termination fees and write-off of costs relating to the terminated Lexico acquisition and abandoned follow-on offering	-	-	-	2,543
Total operating expenses	4,007	3,685	11,445	18,003
Operating income (loss)	980	(122)	3,292	(8,406)
Interest income (expense), net	4	(43)	(445)	30
Other income (expense), net	(5)	11	-	(38)
Loss resulting from fair value adjustments of Series A Warrants, Series B Warrants and warrant to purchase units of Series B preferred stock and warrants	(999)	(2,056)	(3,374)	(2,056)
Loss before income taxes	(20)	(2,210)	(527)	(10,470)
Income tax benefit (expense), net	(50)	91	(121)	65
Net loss	(70)	(2,119)	(648)	(10,405)
Basic and diluted net loss per common share				
	(0.11)	(0.31)	(0.28)	(1.37)
	7,930,440	7,865,263	7,897,391	7,861,681

Number of shares used in computing basic
and diluted net loss per common share

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

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Answers Corporation and Subsidiary

Consolidated Statements of Cash Flows (unaudited, in thousands)

	Nine months ended September 30	
	2009	2008
	\$	\$
Cash flows from operating activities:		
Net loss	(648)	(10,405)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	883	1,080
Increase in deposits in respect of employee severance obligations	(328)	(198)
Increase in liability in respect of employee severance obligations	234	380
Stock-based compensation to employees and directors	1,166	1,312
Write-off of the Brainboost Answers Engine	-	3,138
Write-off of amounts paid in prior periods, relating to the terminated Lexico acquisition and abandoned follow-on offering	-	663
Fair value adjustments of Series A Warrants, Series B Warrants and warrant to purchase Units of Series B preferred stock and warrants	3,374	2,056
Loss on disposal of property and equipment	72	4
Gains from exchange rate forward contracts, net	-	(46)
Unrealized gains from exchange rate forward contracts	103	-
Exchange rate (gains) losses	-	38
Changes in operating assets and liabilities:		
Increase in accounts receivable, and prepaid expenses and other current assets	(259)	(339)
(Increase) decrease in prepaid expenses and other assets	(12)	1
(Increase) decrease in deferred taxes, net	(33)	9
Decrease in accounts payable	(212)	(254)
Increase (decrease) in accrued expenses and accrued compensation	396	(150)
(Decrease) increase in deferred revenues	(16)	6
Net cash provided by (used in) operating activities	4,720	(2,705)
Cash flows from investing activities:		
Capital expenditures	(1,275)	(435)
Increase in long-term deposits	(14)	(28)
Proceeds from sales of investment securities	-	700
Net cash provided by (used in) investing activities	(1,289)	237
Cash flows from financing activities:		
Repayment of capital lease obligation	(58)	(36)
Dividends paid on preferred shares	(404)	-
Stock registration costs	-	(47)
Exercise of common stock options	177	10
Redpoint financings, net of issuance costs	6,480	5,380
Net cash provided by financing activities	6,195	5,307

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Effect of exchange rate changes on cash and cash equivalents	(21)	36
Net increase in cash and cash equivalents	9,605	2,875
Cash and cash equivalents at beginning of period	11,739	6,778
Cash and cash equivalents at end of period	21,344	9,653
Supplemental disclosures of cash flow information:		
Income taxes paid	121	7
Non-cash investing activities:		
Capital expenditures on account	108	-
Acquisition of assets through capital lease obligation	-	239
Non-cash financing activities:		
Increase in accrued dividends	-	106
Amortization of discounts on Series A and Series B convertible preferred shares	1,155	279

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

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ANSWERS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - Business

Answers Corporation (“the Parent”), a Delaware corporation, and its wholly-owned Israeli subsidiary that engages primarily in research and development services to the Parent (“the Subsidiary”), are collectively referred to as “the Company.” The Parent is a public company and trades on the NASDAQ Capital Market under the symbol “ANSW”.

As of September 30, 2009, approximately \$873 thousand of the Company’s net assets were located outside of the United States.

The Company provides answer-based search services to users primarily through its website Answers.com®, which includes WikiAnswers® and ReferenceAnswers™. In the Company’s reports prior to its quarterly report for the second quarter of 2009, it referred to ReferenceAnswers as Answers.com. Beginning with the quarterly report for the second quarter of 2009 it refers to that property as ReferenceAnswers or ReferenceAnswers.com.

On June 16, 2008, the Company raised \$6 million, before related fees and costs, in a private placement offering, and on June 10, 2009 the Company raised an additional \$7 million, before related fees and costs, from the exercise of the second tranche warrant of such private placement offering. See Note 4 for further details.

In the first quarter of 2008, the Company’s planned acquisition of Lexico Publishing Group LLC and the related planned offering of securities were terminated due to unfavorable market conditions. As a result, the Company recorded a charge to its statement of operations, amounting to approximately \$2.54 million.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Answers Corporation and its Subsidiary and are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All significant intercompany balances and transactions have been eliminated in consolidation.

During the third quarter of 2009, the new Accounting Standards Codification (ASC) as issued by the Financial Accounting Standards Board (FASB) became effective. The ASC has become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The ASC does not change Generally Accepted Accounting Principles in the U.S. (U.S. GAAP); and, therefore, does not have any impact on the Company’s consolidated financial statements. Beginning with this quarterly report, all references to GAAP in the notes to the consolidated financial statements use the new Codification numbering system.

The Company has evaluated subsequent events for recognition or disclosure through November 6, 2009, the date upon which these financial statements were available to be issued.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. All adjustments, which are, in the opinion of management, of a normal recurring nature and are necessary for a fair presentation of the interim financial statements, have been included. Nevertheless, these financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on

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Form 10-K for the year ended December 31, 2008. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported results of operations during the reporting periods. Actual results could differ from those estimates.

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ANSWERS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 2 - Summary of Significant Accounting Policies (cont'd)

Revenue Recognition

The Company, through its website Answers.com, generates revenues via advertising in the form of pay-per-performance ads and paid-for-impression advertising. In the pay-per-performance model, the Company earns revenue based on the number of clicks associated with such ads. In the paid-for-impression model, the Company's revenue is derived from the display of ads.

Most of the Company's advertising revenue is obtained through the efforts of third parties rather than through direct contracts with advertisers. The third party is obligated to pay the Company a portion of the revenue it receives from advertisers, as compensation for the Company's sale of promotional space on its Internet properties. Amounts received from such third parties are reflected as revenue in the period in which such advertising services are provided.

The Company also earns an immaterial amount of revenue from partners that pay the Company for providing them with answer-based services that they then use in their own products, via co-branded web pages.

The Company earned advertising revenue from its two web properties, as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$ (in thousands)			
Advertising revenue				
WikiAnswers	3,422	1,960	9,984	4,891
ReferenceAnswers	1,548	1,579	4,700	4,645
	4,970	3,539	14,684	