FORM S-1 · REGISTRATION STATEMENT

Looksmart Ltd

IPO priced 1999-08-20 · $12.00 a share · LOOK



From S1 Directory · www.s1directory.com/s1/looksmart-ltd/ · Source: https://www.sec.gov/Archives/edgar/data/1077866/000095010999002126/0000950109-99-002126.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 14, 1999 REGISTRATION NO. 333- SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549 FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 LOOKSMART, LTD. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	7373	13-3904355
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Identification No.)	(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.
Gail C. Husick, Esq.
Kelly Ames Morehead, Esq.
Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94304
(650) 493-9300

William H. Hinman, Jr., Esq.
Danielle Carbone, Esq.
Shearman & Sterling
1550 El Camino Real
Menlo Park, California 94025
(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	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
COMMON STOCK ($0.001 PAR VALUE).....	$150,000,000	$41,700

(1) ESTIMATED SOLELY FOR THE PURPOSES OF DETERMINING THE REGISTRATION FEE PURSUANT TO RULE 457(O) PROMULGATED 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 JUNE 14, 1999.

SHARES

LOOKSMART, LTD.

COMMON STOCK

THIS IS AN INITIAL PUBLIC OFFERING OF SHARES OF COMMON STOCK OF LOOKSMART, LTD. ALL OF THE 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 $ AND $. APPLICATION HAS BEEN MADE FOR LISTING OF THE COMMON STOCK ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "LOOK".

SEE "RISK FACTORS" BEGINNING ON PAGE 5 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.

	PER SHARE	TOTAL
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to LookSmart	$	$

THE UNDERWRITERS MAY, UNDER CERTAIN CIRCUMSTANCES, PURCHASE UP TO AN ADDITIONAL SHARES FROM LOOKSMART AT THE INITIAL PUBLIC OFFERING PRICE LESS THE UNDERWRITING DISCOUNT.

THE UNDERWRITERS EXPECT TO DELIVER THE SHARES AGAINST PAYMENT IN NEW YORK, NEW YORK ON , 1999.

GOLDMAN, SACHS & CO.

BANCBOSTON ROBERTSON STEPHENS HAMBRECHT & QUIST PROSPECTUS DATED , 1999.

Prospectus Summary

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 thereto appearing elsewhere in this prospectus. The presentation of information in this prospectus assumes the conversion of all LookSmart's preferred stock into common stock as of the date of closing of this offering, and that the underwriters do not exercise the option granted to them by us to purchase additional shares in the offering.

LookSmart

Our Business

We are a leading category-based Internet directory provider which has assembled what we believe to be the largest collection of high-quality, granular (highly specific) content on the Internet. Our LookSmart directory contains over 750,000 unique Uniform Resource Locators (URLs) in over 60,000 categories. Our directory is organized in an easy-to-navigate format that is designed to appeal to an audience of novice, as well as sophisticated, Internet users. We are the only major 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 electronic commerce (ecommerce) transaction 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 (MSN), Netscape Netcenter, Excite@Home and Alta Vista, and over 200 Internet Service Providers (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 April 1999, more than 43 million individual Internet users accessed looksmart.com and the websites of our licensing and syndication partners, according to Media Metrix.

Our Market Opportunity The Navigation Challenge. The massive volume and growth of highly specific content on the Internet has created the need for an organizing layer that can successfully match content producers with end users. We believe that most Internet organization efforts to date, such as traditional Internet directories and search engines, have failed to fully meet this challenge.

The Audience and Advertising Challenge. We believe that current Internet navigation services do not meet the particular needs of what we call the New Media Familysm, a group consisting primarily of female household purchase decision-makers, many of whom are new Internet users. In addition, many advertisers cannot accurately target this audience using the Internet.

The Business Challenge. 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 proportionally. We believe that these companies have a need for outsourced services to provide their search, directory and content solutions. In addition, the rapid emergence of ecommerce has created challenges for many businesses that hope to tap ecommerce opportunities.

To address these challenges, we offer several solutions to Internet users and businesses.

The Navigation Solution. We provide a leading category-based Internet directory that consists of what we believe to be the largest collection of high-quality, granular content on the Internet organized in an easy-to-navigate 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, inoffensive content environment, 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 keyword results pages.

The Business Solution. We offer a variety of business 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 ISPs 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 30 "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, 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..... shares Shares outstanding after this offering(1).. 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 , 1999, including 8,016,616 shares of common stock to be issued upon exercise of outstanding warrants immediately prior to the closing of this offering. The following shares are excluded from this number: 7,904,584 shares of common stock issuable upon the exercise of options outstanding under our 1998 Stock Plan and 2,286,941 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		Three Months Ended	Pro Forma Year Ended	Pro Forma Three Months Ended
December 31, 1997	December 31, 1998	March 31, 1999	December 31, 1998(1)	March 31, 1999(1)

Consolidated Statement of Operations Data: Net revenues..... $ 949 $ 8,785 $ 6,580 $ 20,143 $ 10,245 Loss from operations.... (7,329) (11,898) (6,689) (17,026) (7,728) Net loss..... (7,514) (12,858) (6,722) (17,988) (7,761) Net loss per share: Basic and diluted..... $ (0.12) $ (1.03) $ (0.52) $ (1.26) $ (0.53) Weighted average shares, basic and diluted..... 61,059,333 12,526,356 12,972,652 14,226,356 14,672,652 Pro forma net loss per share: Basic and diluted..... $ (0.47) $ (0.17) $ (0.59) $ (0.20) Pro forma weighted average shares, basic and diluted..... 27,386,715 39,149,991 30,631,159 39,149,991 At March 31, 1999 Pro Forma Actual As Adjusted(1)(2) Consolidated Balance Sheet Data: ------ ----------

Cash and cash equivalents.....	$58,429
Working capital.....	51,362
Total assets.....	84,070
Long-term debt and capital lease obligations, net of current portion.....	375
Total stockholders' equity.....	$52,701

(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 shares of our common stock at an assumed offering price of $ 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 such 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 Our management and internal systems may be inadequate to handle the growth of our business We have experienced rapid growth both internally and through acquisitions in a short period of time. We plan to continue to increase the scope of our operations both domestically and internationally by enhancing our existing services, offering new services and expanding into new business areas, including ecommerce. Since January 1, 1998, our workforce has grown substantially, from 63 employees at that date to 430 employees on May 31, 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.

Our business is extremely difficult to evaluate because our operating history is limited 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. Our revenue and income potential are unproven and our business model is continuing to evolve. 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;

. enhance and expand the quality and breadth of our directory;

. 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;

. manage the rapid growth of our business;

. attract, retain and motivate qualified personnel;

. respond to technological and competitive developments; and . expand our service offerings, including ecommerce and LookSmart Live!SM.

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

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 $6.7 million in the quarter ended March 31, 1999. As of March 31, 1999, we had an accumulated deficit of approximately $30.0 million. Although our revenues have grown in recent quarters, 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 in the future 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 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 (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;

. timing of revenue recognition under long-term contracts;

. the amount and timing of other costs relating to the expansion of our operations;

. 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 certain 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 revenue 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.

The adequacy of our internally developed software and systems is critical to our business 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 third parties 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 web site 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.

Our business prospects will suffer if we fail to establish our LookSmart brand 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 third parties will not undermine our efforts to establish the LookSmart brand. If our branding strategy is unsuccessful, we may be unable to increase future revenues.

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 quarter ended March 31, 1999, revenue from Microsoft under this agreement accounted for 66% 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. This license excludes certain locally-oriented content. Microsoft also has the right to sublicense these rights to third parties both during and after the term, although for a period of not less than two years, 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 pursuant to this agreement may be terminated by either party for any reason on six months' notice.

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 revenue and damage to our reputation and brand name. In addition, our users and customers depend on Internet service providers, 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 (Frontier) 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.

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. We intend to introduce 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 new 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. Such 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.

We believe LookSmart Live! will be 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 be harmed. The costs of providing our LookSmart Live! service may exceed the incremental advertising revenue, 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.

There are relatively low barriers to entry into certain segments of the Internet navigation market. 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 (1) directory content and/or search algorithms, (2) content aggregation and licensing, (3) demographically and content-targeted advertising, (4) Internet outsourcing and (5) 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 Internet service providers. If these companies fail to provide these referrals, or the market for these referrals becomes more competitive such that navigation companies are required to pay more for these referrals, our business and profitability could be harmed.

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 our company. In addition, integration of recently acquired companies and future acquisitions into our company 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 revenue 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.

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 partners to generate traffic For the year ended December 31, 1998 and the three months ended March 31, 1999, advertising revenues accounted for 63.3% and 33.3% 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, then our advertising revenues could decline.

Recent acquisitions and strategic alliances involving our competitors could negatively affect our business Recently, there have been a number of significant acquisitions and strategic alliances completed or announced in the Internet navigation market involving certain 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's acquisition of an interest in Snap! LLC (a subsidiary of CNET) and proposed merger with XOOM, Inc.; and . Compaq Computer Corporation'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 certain 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.

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 there can be no assurance 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 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 certain 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. Many of these businesses could fail and, in any event, represent credit risks. If our customer base experiences financial difficulties or fails to experience commercial success, our business will suffer.

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. However, we cannot 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. Any additional equity financing may cause investors to experience dilution and the terms of additional debt financing may contain covenants that restrict our operations.

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 partners, including through our syndication and licensing activities. The availability of this content through our website or third party 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 revenue 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 international expansion strategy involves risks A key component of our strategy is expanding our operations into selected international markets, including in 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 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 third parties. Although we do not believe that our services infringe on any third-party proprietary rights, we cannot assure you that third parties will not assert such claims against us in the future or that such 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 certain agreements to indemnify other parties as a result of claims that we infringe on the proprietary rights of third parties. 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 such 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 certain provisions of our charter and by-laws may discourage a takeover attempt Our Restated Certificate of Incorporation and 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 Certain 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.

There is intense competition for advertising revenue on high-traffic websites, which has resulted in significant price competition. Currently, there are a variety of pricing models for selling advertising on the Internet. 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, 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 to 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.

Published reports have indicated 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, increase our cost of doing business or otherwise have a material adverse effect on our business. 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 certain 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 (EU) has adopted a directive that imposes restrictions on the collection and use of personal data, guaranteeing citizens of EU member states certain 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 EU member states.

As is typical with most websites, our website places certain information (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 third parties were able to penetrate our network security and gain access to, or otherwise 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, the executive officers, directors, and significant stockholders and the funds for whom they act as general partner collectively will own approximately % 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 like mergers or sales of all of our assets. This concentration of ownership may have the effect of discouraging third parties from making a tender offer or bid to acquire our company 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 will be 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 shares of common stock outstanding. These shares will become eligible for future sale in the public market as follows:

Number of Shares Date Eligible for Public Resale Date of this prospectus (includes shares sold in this offering) 180 days after the date of this prospectus At various times thereafter We intend to register on Form S-8 registration statements under the Securities Act a total of shares of common stock reserved for issuance under the 1998 Stock Plan and 1999 Employer Stock Purchase Plan. None of these shares may be sold for a period of 180 days after completion of the offering. As of the date of this prospectus, there were outstanding options to purchase 7,904,584 shares of common stock, of which 619,095 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 28,139,090 shares of outstanding common stock and warrants to purchase 2,983,557 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 subject to limitations. See "Description of Capital Stock--Registration Rights".

You will suffer immediate and substantial dilution The initial public offering price per share of common stock will significantly exceed our net tangible book value per share. Accordingly, investors purchasing shares in this offering will suffer immediate and substantial dilution of their investment.

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 are intended 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          shares of common stock
are estimated to be approximately $         at an assumed initial public
offering price of $       per share (approximately $           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 third 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 such 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 March 31, 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 26,791,968 shares of common stock and the exercise of warrants to purchase 8,016,616 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 $ 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.

March 31, 1999 Pro Forma Actual Pro Forma As Adjusted (in thousands) Long-term debt and capital lease obligations, current portion..... $ (1,637) $ (137) $ Long-term debt and capital lease obligations, net of current portion..... (375) (375) Stockholders' equity: Preferred Stock, $0.001 par value: Series A, 7,925,300 shares authorized: 5,235,076 shares issued and outstanding, actual; none authorized, issued and outstanding, pro forma and pro forma as adjusted(1)..... 5 Series B, 9,551,832 shares authorized: 9,551,832 shares issued and outstanding, actual; none authorized, issued and outstanding, pro forma and pro forma as adjusted(1)..... 10 Series C, 8,393,333 shares authorized: 8,005,060 issued and outstanding, actual; none authorized, issued and outstanding, pro forma and pro forma as adjusted(1)..... 8 Series 1 Junior, 4,000,000 shares authorized: 4,000,000 shares issued and outstanding, actual; none authorized, issued and outstanding, pro forma and pro forma as adjusted(1)..... 4 Preferred Stock, $0.001 par value; 5,000,000 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, 70,129,535 shares authorized; 12,972,652 issued and outstanding, actual; 47,781,236 issued and outstanding, pro forma; 100,000,000 shares authorized; issued and outstanding, pro forma as adjusted(1)..... 14 48 Additional paid-in capital..... 85,520 87,639 Warrants..... 2,851 1,995 Unearned compensation..... (5,669) (5,669) Cumulative translation adjustment..... (48) (48) Accumulated deficit..... (29,994) (29,994) Total stockholders' equity..... 52,701 53,971 Total capitalization..... $ 54,713 $ 54,483 $ (1) The following shares at March 31, 1999 are excluded from the number: 8,089,500 shares of common stock issuable upon exercise of outstanding options and 2,983,557 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 March 31, 1999 was $48,852,000 or $1.02 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 (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 March 31, 1999, other than to give effect to the sale of shares of common stock offered by this prospectus at an assumed initial public offering price of $ per share and receipt of the estimated net proceeds therefrom, our pro forma net tangible book value as of March 31, 1999 would have been approximately $ or $ per share. This represents an immediate increase in such net tangible book value of $ per share to existing stockholders and an immediate dilution of $ 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..... $ Pro forma net tangible book value per share as of March 31, 1999, before this offering..... $1.02 Increase per share attributable to new investors..... Pro forma net tangible book value per share after this offering..... Dilution per share to new investors..... $ The following table summarizes, as of March 31, 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 $ per share, before deducting the estimated underwriting discounts and offering expenses payable by us:

Total Shares Purchased Consideration ---------- ---------- Average Price Number Percent Amount Percent Per Share

```
Existing stockholders..... 42,764,620      %  $            %      $
New investors...................                                 $
  Total.........................          %  $       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 March 31, 1999. As of March 31, 1999, there were outstanding options to purchase an aggregate of 8,089,500 shares of common stock at a weighted average exercise price of $.15 per share and warrants to purchase 2,983,557 shares of common stock at a weighted aggregate purchase price of $2.85 per share. If all such options and warrants had been exercised on March 31, 1999, our net tangible book value on such date would have been $, or $ per share, the increase in net tangible book value attributable to new investors would have been $ per share and the dilution in net tangible book value to new investors would have been $ 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 thereto 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 three-month period ended March 31, 1998 and 1999 and the consolidated balance sheet data as of March 31, 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, LLC, ITW New Corp. Inc. and BeSeen.com, Inc. and should be read in conjunction with such pro forma statements and notes thereto 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 July 19, 1996 (Inception) to December 31, 1996	Year Ended December 31, 1997	Year Ended December 31, 1998	Three Months Ended March 31, 1998	Three Months Ended March 31, 1999	Pro Forma Year Ended December 31, 1998	Pro Forma Three Months Ended March 31, 1999(1)
	(in thousands, except per share amounts)						(unaudited)
Statement of Operations Data: Revenues	$ 3	$ 949	$ 8,785	$ 804	$ 6,580	$ 20,143	$ 10,245
Cost of revenues	90	700	6,819	626	2,840	13,481	5,197
Gross profit (loss)	(87)	249	1,966	178	3,740	6,662	5,048
Operating expenses: Sales and marketing	1,115	3,398	5,615	748	3,900	8,876	4,777
General and administrative	504	1,165	2,746	362	1,616	4,535	2,094
Product development	915	2,605	4,427	528	3,884	4,855	3,911
Write-off of in- process research and development	--	--	338	--	--	--	--
Total operating expenses	2,739	7,578	13,864	1,741	10,429	23,689	12,777
Loss from operations	(2,826)	(7,329)	(11,898)	(1,563)	(6,689)	(17,026)	(7,728)
Other income (expense), net	(10)	(19)	(814)	(64)	19	(817)	19
Net loss	$ (2,900)	$ (7,514)	$ (12,858)	$ (1,672)	$ (6,722)	$ (17,988)	$ (7,761)
Basic and diluted net loss per share	$ (0.04)	$ (0.12)	$ (1.03)	$ (0.14)	$ (0.52)	$ (1.26)	$ (0.53)
Weighted average shares used in computing basic and diluted net loss per share	77,298,272	61,059,333	12,526,356	12,001,400	12,972,652	14,226,356	14,672,652

Unaudited pro forma basic and diluted net loss per share(2)..... $ (0.47) $ (0.17) $ (0.59) $ (0.20) Weighted average shares used in computing pro forma basic and diluted net loss per share..... 27,386,715 39,149,991 30,631,159 39,149,991

December 31, 1996	December 31, 1997	December 31, 1998	March 31, 1999	Pro Forma March 31, 1999(1)
	(in thousands)	(unaudited)		

Balance Sheet Data: Working capital (deficit)..... $ (429) $ (1,125) $ (6,507) $ 51,362 $ 41,648 Total assets..... 2,825 2,275 13,590 84,070 93,004 Long-term debt and capital lease obligations, net of current portion..... -- 1,500 1,500 375 375 Total stockholders' equity (deficit)..... 2,091 (453) (1,761) 52,701 61,627 (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) 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 such 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 which has assembled what it believes to be the largest collection of high quality, granular content on the Internet. The LookSmart directory contains over 750,000 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 partners. Our Internet properties, including looksmart.com, primarily target 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, such as The Microsoft Network (MSN), Netscape Netcenter,

Excite@Home and Alta Vista, and to over 200 Internet Service Providers (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 6.0 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 third party salesforces. 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, or "CPM".

In October 1998, we acquired BeSeen.com, Inc., a leading provider of tools to webmasters, for 4 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 March 31, 1999, deferred revenue associated with the Microsoft contract was $23.6 million. Either party may terminate the contract upon six-months notice following the second anniversary of the contract.

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 for potential strategic relationships and acquisitions.

In April 1999, we acquired lines of business and other rights from an affiliate of Guthy-Renker Corporation as part of a strategic alliance between our two companies for $5 million in cash and 1.7 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 "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 infomercials.

In May 1999, we entered into a letter of commitment with PBS Sponsorship Group 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 term of the agreement is for five years, with either party having the right to terminate the agreement after three years. During the term, none of our directory competitors will have the right to sponsor any of the listed programs. Additionally, we have the right to transmit such programs online during the term.

In June 1999, we entered a three-year licensing agreement with Excite@Home. Under this agreement, we will share advertising revenues with Excite@Home. We have also agreed to co-develop a broadband content directory.

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.

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.

Ecommerce. We began generating ecommerce revenues with our acquisition of Guthy-Renker Internet, LLC 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 "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 plan to launch our Rewardmall service in June 1999. This Internet shopping mall will feature over 25 merchants. We will also offer "Reward Points" for purchases made through this service.

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 payments to portals, ISP partners and other traffic providers who direct online users to our LookSmart database. Other components of cost of revenues are agency commissions paid to third-party advertising sales organizations, personnel costs of our in-house advertising operations employees, equipment depreciation and other expenses relating to hosting advertising operations.

We expect cost of revenues to increase over time in absolute dollars. Cost of revenues as a percentage of revenues can exhibit significant fluctuations from period to period depending on the volume of traffic purchases and the contracted rates. Further, cost of revenues as a percentage of revenues can vary significantly depending on the structure of the payment arrangements between us and our partners. When a traffic arrangement is structured so that we simply receive a payment from our partner, 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 cost of revenues 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 partner, we record as revenue the entire amount of the gross advertising revenue, and the portion forwarded to the partner is recorded as cost of revenue associated with that revenue stream.

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 third-party 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 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 following 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 (ESS) 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. 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 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 expenses of approximately $6.4 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 expense is amortized over the vesting period of the applicable option, typically four years. Amortization of unearned compensation expense was $133,000 for the year ended December 31, 1998, and $635,000 for the three months ended March 31, 1999. We expect to amortize additional unearned compensation expenses of $2.7 million in the remainder of 1999, $1.8 million in 2000, $887,000 in 2001, $319,000 in 2002 and $13,000 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 $3.4 million. This amount is being amortized over periods from one to five years. We began amortizing this amount in the fourth quarter of 1998, and we expect to amortize approximately $1.1 million of the remainder in 1999, $1,103,000 in 2000, $854,000 in 2001, $430,000 in 2002 and $1,104,000 in 2003. 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,		Three Months Ended March 31,	
	1997	1998	1998	1999
			(Unaudited)	
Revenues	100 %	100 %	100 %	100 %
Cost of revenues	74	78	78	43
Gross margin	26	22	22	57
Operating expenses:				
Sales and marketing	357	63	92	58
Product development	274	50	66	59
General and administrative	123	31	45	25
Amortization of goodwill	43	6	11	6
Amortization of unearned compensation costs	--	2	--	10
Write-off of in-process R&D	--	4	--	--
Total operating expenses	797	156	216	158
Loss from operations	(771)	(134)	(194)	(101)
Other income (expense), net	(2)	(10)	(8)	--
Loss before income taxes	(773)	(144)	(202)	(101)
Income taxes	(18)	(2)	(6)	(1)
Net loss	(791)%	(146)%	(208)%	(102)%

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

Three Months Ended March 31, 1999 compared to the Three Months Ended March 31, 1998
Revenues. Our revenues increased 718% to $6.6 million in the three months ended March 31, 1999 compared to $804,000 in the same period of 1998. The largest portion of the increase was due to new revenues of $4.2 million from licensing in the first quarter of 1999, principally under the Microsoft contract. In the 1999 period, advertising revenues increased by $1.4 million as a result of increased traffic and better inventory management.

Cost of Revenues. Cost of revenues increased 353% to $2.8 million for the three months ended March 31, 1999 from $626,000 for the same period in 1998. A substantial portion of the increase in cost of revenues for the first quarter of 1999 was attributable to payments to Netscape for the purchase of traffic under an agreement originally entered into in May 1998. We expect to continue to make significant payments to Netscape in the future under this contract, which was recently renewed. We also increased the number of ISP partners between the first quarter of 1998 and the first quarter of 1999, resulting in higher traffic levels and associated costs. 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 three months ended March 31, 1999 to the same period for 1998.

As a percentage of revenues, cost of revenues decreased to 43% for the three months ended March 31, 1999 compared to 78% 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 a third party advertising sales force, which is accounted for in cost of revenues, to an in-house salesforce, 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 third party advertising agency.

Sales and Marketing. Sales and marketing expenses increased 421% to $3.9 million for the three months ended March 31, 1999 from $748,000 for the same period in 1998. As a percentage of revenues, sales and marketing expenses decreased to 58% for the three month period ended March 31, 1999 from 92% for the same period in 1998. The dollar increase in sales and marketing expenses is attributable to our addition of an advertising sales staff in the second half of 1998, as discussed above and our industry brand marketing campaign focused on syndication partners and the advertising trade.

Product Development. Product development expenses increased 635% to $3.9 million for the three months ended March 31, 1999 from $ 528,000 for the same period in 1998. As a percentage of revenues, product development expenses increased to 59% for the three month period ended March 31, 1999 from 66% 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 346% to $1.6 million for the three months ended March 31, 1999 from $362,000 for the same period in 1998. As a percentage of revenue, general and administrative expenses decreased to 31% for the three month period ended March 31, 1999 from 45% 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 and the BeSeen.com acquisition completed in the fourth quarter of 1998, as described above. Amortization of these assets increased 282% to $394,000 for the three months ended March 31, 1999 from $103,000 for the same period in 1998. The dollar increase was due primarily to the fact that 1999 included the impact of the BeSeen.com acquisition.

Amortization of Unearned Compensation. Amortization of deferred compensation costs were $635,000 for the three months ended March 31, 1999. There were no such costs for the same period in 1997. We began recording unearned compensation costs in the second half of 1998.

Other 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 $20,000 for the three months ended March 31, 1999 compared to net interest expense of $30,000 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 three months ended March 31, 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 $1,000 for the three months ended March 31, 1999 compared to other expenses, net, of $34,000 for the same period in 1998.

Income Taxes. We recorded income tax expense of $52,000 for the three months ended March 31, 1999, primarily associated with our Australian operations, compared to $45,000 for the same period in 1998.

Year Ended December 31, 1998 compared with Year Ended December 31, 1997 Revenues. Our revenues increased 825% 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 new revenues 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. Also contributing significantly to the increase was improved advertising revenues as compared to the 1997 period as a result of increased traffic and better advertising inventory management.

Cost of Revenues. Cost of revenues increased 874% to $6.8 million for the year ended December 31, 1998 from $700,000 for the same period in 1997. As a percentage of revenues, cost of revenues increased slightly to 78% for the year ended December 31, 1998 compared to 74% for the same period in 1997. Traffic payments under the Netscape contract and under a similar contract with Alta Vista accounted for the year-to-year increase.

Sales and Marketing. Sales and marketing expenses increased 65% to $5.6 million for the year ended December 31, 1998 from $3.4 million for the same period in 1997. As a percentage of revenues, sales and marketing decreased to 63% for the year ended December 31, 1998 from 357% for the same period in 1997. The dollar increase in sales and marketing expenses is attributable to our addition of an advertising sales staff in the second half of 1998 and our industry brand marketing campaign focused on syndication partners and the advertising trade.

Product Development. Product development expenses increased 83% to $4.8 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 54% 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 135% 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 47% 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 Costs. Amortization of unearned compensation costs was $133,000 for the year ended December 31, 1998. There were no such costs for 1997. We began recording unearned compensation costs 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.

Other 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 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 $700,000 for the year ended December 31, 1997 from $90,000 for the period from July 19, 1996 (inception) through December 31, 1996. Traffic fees and sales commissions to third parties 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.

Sales and Marketing. Sales and marketing expenses increased to $3.4 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 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 five months of amortization in 1996.

Other 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, (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 seven quarters ended March 31, 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.

(in thousands) Three Months Ended Sept. 30, Dec. 31, Mar. 31, June 30, Sept. 30, Dec. 31, Mar. 31, 1997 1997 1998 1998 1998 1998 1999

Revenues	$ 102	$ 555	$ 804	$ 1,040	$ 1,723	$ 5,218	$ 6,580
Cost of revenues	132	309	626	1,354	2,093	2,746	2,840
Gross margin	(30)	246	178	(314)	(370)	2,472	3,740
Operating expenses:							
Sales and marketing	1,027	695	748	851	1,451	2,565	3,900
Product development	874	478	528	615	1,186	2,098	3,884
General and administrative	324	220	362	524	671	1,189	1,616
Amortization of goodwill	103	103	103	103	103	296	394
Amortization of unearned compensation costs	--	--	--	--	18	115	635
Write-off of in-process research and development	--	--	--	--	--	338	--
Total operating expenses	2,328	1,496	1,741	2,093	3,429	6,601	10,429
Loss from operations	(2,358)	(1,250)	(1,563)	(2,407)	(3,799)	(4,129)	(6,689)
Other income (expense), net	5	(29)	(64)	(503)	(2)	(245)	19
Loss before income taxes	(2,353)	(1,279)	(1,627)	(2,910)	(3,801)	(4,374)	(6,670)
Income taxes	(41)	(30)	(45)	(31)	(18)	(52)	(52)
Net loss	$(2,394)	$(1,309)	$(1,672)	$(2,941)	$(3,819)	$(4,426)	$(6,722)

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 agreement that we entered into in the third quarter of 1998. In addition, revenues increased each quarter for the six quarters ended December 31, 1998, as a result of steady increases in advertising and syndication revenue. Advertising revenues were higher in the fourth quarter of 1998, reflecting the seasonality of our advertising sales, which are typically higher during the holiday season.

Cost of revenues increased in each of the seven quarters ended March 31, 1999. The quarterly increases were the result of higher traffic volume generated by the Netscape contract and a similar contract with Alta Vista. Also contributing to the increasing quarterly cost of revenues were agency commissions paid to third party advertising sales organizations and depreciation. 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 three quarters as we increased our trade marketing efforts, built our salesforce and continued to expand our business development team. Product development expenses increased significantly for each of the last three 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 as a result of recording three full months of amortization of goodwill related to the November 1998 acquisition.

Amortization of unearned compensation costs increased in each of the last three quarters ended March 31, 1998, 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 (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 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 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 March 31, 1999, we had working capital of $51.4 million. Current assets included $58.4 million in cash and cash equivalents and current liabilities included $17.3 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 March 31, 1999.

Our operations used cash of $6.4 million for 1997, $1.9 million for 1998 and $3.8 million for the quarter ended March 31, 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 quarter of 1999 resulted primarily from the net losses for the period and increases in accounts receivable, 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 $1.8 million for the years ended December 31, 1997 and 1998, and for the quarter ended March 31, 1999. Investing activity in each period reflects purchases of fixed assets and, in 1998, also includes the acquisition of BeSeen.com. 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 $60.5 million for the years ended December 31, 1997 and 1998, and for the quarter ended March 31, 1999. In 1997, we received a $5.0 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 $61 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 and conduct more aggressive brand promotions and will 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 Contingency Planning In 1999, we initiated a Year 2000 assessment and contingency planning effort to review both our information technology systems and our non-information technology systems, and where necessary to plan for and supervise the remediation of

those systems (Y2K Committee). We have retained Interim Technologies as our outside consultant to assist us in the Y2K Committee's review of our systems and planning for remediation efforts. We have conducted tests and expect to conduct additional tests of such systems as part of our Year 2000 efforts.

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

. Discovery (completed June 4, 1999);

. Compliance Review Phase I/Desktop Systems (planned as June 7-June 28, 1999);

. Compliance Review Phase II/Network Servers (planned as July 1-July 31, 1999); and . Compliance Review Phase III/External Systems (planned as August 1-August 31, 1999).

Interim Technologies will develop contingency plans for critical individual information technology systems and non-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.

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

We have initiated communication with other significant suppliers and vendors to determine the extent to which they are vulnerable to Year 2000 issues. We have not yet received sufficient information on Year 2000 remediation plans of these vendors in order to predict the outcome of their efforts. We have not made a full assessment of the extent to which third parties with which we transact business have determined their vulnerability to Year 2000 issues.

As part of their analysis of the Year 2000 problem, Interim Technologies will analyze the impact of the "worst case scenario" on our business. The "worst case scenario" would occur if the vendors' critical systems fail to be Year 2000 compliant, our current upgrades were unsuccessful and our contingency plan failed, resulting in a critical systems failure throughout LookSmart.

Costs

Although we do not track Year 2000 readiness expenses separately from other expenses, 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 be material.

Risks

We believe that the Year 2000 risk will not present significant operational problems for us. However, there can be no assurance that our Year 2000 planning program will prevent any harm to our company.

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

Year 2000 issues may impact other entities with which we do business, including those responsible for maintaining telephone and online communications such as Frontier GlobalCenter. Accordingly, we cannot predict the effect of the Year 2000 problem on such entities. If these other entities fail to take preventative or corrective actions in a timely manner, the Year 2000 issue could have a negative effect on our business.

Business

Overview

LookSmart is a leading category-based Internet directory provider which has assembled what it believes to be the largest collection of high-quality, granular content on the Internet. The LookSmart directory contains over 750,000 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. LookSmart is the only major 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, such as The Microsoft Network (MSN), Netscape Netcenter, Excite@Home and Alta Vista, and over 200 Internet Service Providers (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 April 1999, more than 43 million individual Internet users accessed looksmart.com and the websites of our licensing and syndication partners, 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 (IDC) 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 351 million in 1997 to 7.7 billion by 2002. This includes "suffixed" pages, which are separate URLs within individual websites. We believe this increase is leading to an increasing 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. Jupiter Communications, LLC estimates that total spending on Internet advertising in the United States will grow from $1.9 billion in 1998 to $7.7 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--such as 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 controlled or influenced 80% of all purchase decisions. Spending on advertising targeted to women is generally considered to represent the largest single category of advertising in the United States. Many advertisers, however, cannot accurately target this audience using the Internet because they lack sufficiently precise targeting data--such as demographic, psychographic and behavioral data. In addition, few websites offer advertisers access to concentrated groups of female users. For example, Media Metrix estimated that

less than 10% of all websites had audiences consisting of over 50% females in April 1999. 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 keyword query.

Comprehensive Content. The LookSmart directory currently contains over 750,000 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 67 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 keyword 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 keyword 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.

A typical LookSmart category search result for "home repair" is illustrated below:

[Graphics of LookSmart category search page and website reporting page.]

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!. We intend to introduce a service that will enable 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, if introduced, this would be 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. Looksmart.com's audience was most recently measured by the NPD (the majority owner of Media Metrix) Search Engine Tracking Study for Winter 1999 at 61% female--up from 60% and 57% in respective prior quarters. 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 Internet Service Providers. We leverage our database by syndicating, licensing and distributing our proprietary content to leading Internet portals, websites and other media companies such as Microsoft, Netscape, Alta Vista, Excite@Home, Blue Mountain Arts, Go2Net, Lycos/HotBot, Macromedia and IDG. Each partner 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 over 200 member ISPs and a greater than 90% customer retention rate 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 30 As Seen on TV products ranging from music videos to beauty and health products, pursuant to 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: (a) commercial material; (b) material related to cosmetic surgery; (c) pornographic material; or (d) 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. Looksmart.com combines the navigation functionality of the underlying database with the benefits of the website's easy-to-use user interface. 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 such material through looksmart.com, we believe that it is unlikely that a user of looksmart.com will inadvertantly 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 the most comprehensive collection of high-quality local websites in 67 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 revenue from our proprietary content by licensing 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 which accounts for approximately 75% of all non-AOL ISP traffic. The LookSmart network has over 200 member ISPs and a greater than 90% customer retention rate 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 as to how to best establish an online presence and tap potential ecommerce opportunities;

. internet design and website building;

. integration of ecommerce enabling tools into websites (e.g. shopping carts, 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 (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 will launch an Internet shopping mall called rewardmall.com, which will feature over 25 brand name merchants, as well as smaller specialty merchants. The Rewardmall will be accessible via a direct link from the looksmart.com home page as well as via several links throughout our website. In addition, the Rewardmall will be syndicated to our ISP partners and through our co-branded websites. Internet shoppers will be able to find products and services by using the Rewardmall directory or by searching the Rewardmall by merchant, product or product category. We will also offer shoppers customized "Rewardmall Deals" which appear throughout the Rewardmall. We will 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 certain 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 various products, services and miles in certain 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 thirty 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's products, including Anthony Robbins' programs and Victoria Principal cosmetics. We receive a percentage of all sales revenues from such 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 May 1999 by Top 100 and looksmart.co.uk was a top 50 website in the United Kingdom in a June 1999 Fletcher Research study.

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, Inc. 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, using its own editorial staff, provides the local content for 67 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 Corporation 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's As Seen on TV products. We receive media support from Guthy-Renker in the form of advertising in Guthy-Renker infomercials.

PBS. In May 1999, we entered into a letter of commitment with PBS Sponsorship Group 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. Additionally, we have the right to transmit such programs online during the term of our agreement. The agreement will have a five-year term, however either party will have the right to terminate the agreement after three years. During the term, none of our directory competitors will have the right to sponsor any of the listed programs.

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.

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 and Internet advertisers' and ecommerce marketers' spending has increased significantly. With no substantial barriers to entry in these markets, we expect such 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	Internet navigation, content aggregation, content licensing	AOL, Yahoo!, Snap!, Infoseek, Lycos, and Netscape Open Directory

Internet advertising Demographically targeted and Internet destinations content-targeted advertising 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 companies	Small vendors Internet and transaction enabling	TicketMaster-CitySearch, 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 ESS, 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 ESS, 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 ESS also provides various statistical and reporting functions, such as 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 GlobalCenter. In February 1999, we signed an agreement with Frontier GlobalCenter to provide co-location, Internet connectivity, and maintenance of our hardware equipment at Frontier's Santa Clara, California facility. Frontier GlobalCenter provides a 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 from the inception of operations through October 1997 and by DoubleClick 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 twenty 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 will involve some or all of television, online, print, radio, cable, and 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 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 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 430 as of May 31, 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 term lease 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, over seeing 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. 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 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 human resources management 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 1996, Mr. Ryan has served as Chairman of Entrepreneur America, LLC, a business consulting company. From 1989 to 1995, Mr. Ryan served as founder, 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 such 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 grants 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 Salary	Bonus	Other Annual Compensation	Long-Term Compensation Awards Securities Underlying Options	All Other Compensation (2)
Evan Thornley.....	$137,136	--	$30,323(3)	--	--
Chairman, Chief Executive Officer and Director Brian Cowley.....	190,000(4)	--	--	--	$7,969
Senior Vice President, Global Sales Barbara Read.....	172,057(5)	$17,500	--	--	5,375
Vice President, Advertising Sales Michael Reaves.....	120,000	--	--	42,000	3,500
Vice President, Engineering (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 granted to each of the named executive officers during the fiscal year ended December 31, 1998:

Option Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation or Option Term(3)	
Name(1)	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 Read.....	--	--	--	--		
Michael Reaves.....	42,000	0.01%	$0.125	8/19/2008	$17,103	$35,601

(1) In September 1998, we granted to Mr. Landi an option to purchase 400,000 shares of common stock at an exercise price of $0.1750 per share, which expires on September 2, 2008. In November 1998, we granted to Mr. Neylon an option to purchase 700,000 shares of common stock at an exercise price of $0.25 per share, which expires on November 6, 2008. In February 1999, we granted to Ms. Cole an option to purchase 600,000 shares of common stock at an exercise price of $1.875 per share, which expires on February 25, 2009. (2) All options were granted under LookSmart's 1998 Stock Plan. Options granted 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 grant 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 grant to the present.

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

Fiscal Year-End Option Values

	Number of Securities Underlying Unexercised Options at Fiscal Year-End(1)		Value of Unexercised In-the-Money Options at Fiscal Year-End(2)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Evan Thornley.....	--	--	--	--
Brian Cowley.....	607,500	472,500	$219,125	$170,431
Barbara Read.....	48,750	131,250	17,584	47,342
Michael Reaves....	22,500	109,500	8,116	39,497

(1) All options were granted under LookSmart's 1998 Stock Plan. Options granted under the Plan vest over a four-year period with 25% vesting at the first anniversary date of the grant 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 fair market value of the underlying securities as of December 31, 1998 of $0.375 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 (1998 Plan) provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (Code), and for the granting to employees, directors and consultants of nonstatutory stock options and stock purchase rights (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 and March 1999, and the stockholders also approved these amendments to the 1998 Plan in March 1999. Unless terminated sooner, the 1998 Plan will terminate automatically in 2008. A total of 13,900,000 shares of common stock is currently reserved for issuance pursuant to the 1998 Plan, and the 1998 Plan provides for automatic annual increases equal to the lesser of: (i) 2.5 million shares; (ii) 4% of the outstanding shares on such date, or (iii) an amount determined by the Board of Directors. As of May 31,1999, options to purchase 1,315,151 shares of common stock had been exercised and options to purchase 7,503,332 shares of common stock were outstanding under the Plan with a weighted average exercise price of $0.152, and 1,089,517 shares were available for future grants.

The 1998 Plan may be administered by the Board of Directors or a committee of the Board of Directors (Administrator). 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 granted, 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 no such action may affect any share of common stock previously issued and sold or any option previously granted under the 1998 Plan.

Options and SPRs granted 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 such optionee. Options granted 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 such 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 otherwise, the Restricted Stock Purchase Agreement shall grant 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 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 LookSmart. The repurchase option shall lapse at a rate determined by the Administrator. The exercise price of all incentive stock options granted under the 1998 Plan must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of nonstatutory stock options and SPRs granted 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 grant. The term of all other options granted 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 otherwise be exercisable, for a period of fifteen (15) days from the date of such notice, and the option or SPR will terminate upon the expiration of such period.

1999 Employee Stock Purchase Plan LookSmart's 1999 Employee Stock Purchase Plan (1999 Purchase Plan) was adopted by the Board of Directors, subject to stockholder approval, in June 1999. A total of 500,000 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: (i) 1

million shares; (ii) 3% of the outstanding shares on such date; or (iii) an amount determined by the Board of Directors. As of the date of this prospectus, no shares have been issued under the 1999 Purchase Plan.

The 1999 Purchase Plan which is intended to qualify under Section 423 of the Code contains successive 24 month offering 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 commences on the first trading day on or after the effective date of this Offering and ends on the last trading day on or before December 1, 1999.

Employees are eligible to participate if they are customarily employed by LookSmart or any participating subsidiary for at least twenty hours per week and more than five months in any calendar year. However, any employee: (i) who immediately after grant owns stock possessing 5% or more of the total combined voting power or value of all classes of the capital stock of LookSmart; or (ii) whose rights to purchase stock under all employee stock purchase plans of LookSmart accrues at a rate which exceeds $25,000 worth of stock for each calendar year, may be not be granted an option to purchase stock under the 1999 Purchase Plan. The 1999 Purchase Plan permits participants to purchase common stock through payroll deductions of up to 15% of the participant's "compensation." Compensation is defined as the participant's base straight time gross earnings and commissions, but exclusive of payments for overtime, profit sharing payments, shift premium payments, incentive compensation and bonuses. The maximum number of shares a participant may purchase during a single offering period is 2500 shares.

Amounts deducted and accumulated by the participant are used to purchase shares of common stock at the end of each offering period. The price of stock purchased under the 1999 Purchase Plan is 85% of the lower of the fair market value of the common stock at the beginning or end of the offering period. 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 granted under the 1999 Purchase Plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the 1999 Purchase Plan. The 1999 Purchase Plan provides that, in the event of a merger of LookSmart with or into another corporation or a sale of substantially all of our assets, offering periods then in progress may be continued by the successor corporation. If the successor corporation refuses to continue the offering periods then in progress, such offering periods will be shortened and a new exercise date will be set. The 1999 Purchase Plan will terminate in 2009. The Board of Directors has the authority to amend or terminate the 1999 Purchase Plan, except that generally no such action may adversely affect any outstanding rights to purchase stock under the 1999 Purchase Plan.

401(k) Plan

LookSmart's 401(k) plan covers its full-time employees located in the United States. The 401(k) plan is intended to qualify under Section 401(k) of the 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 Amended and 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: (i) breach of their duty of loyalty to the corporation or its stockholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) unlawful payments of dividends or unlawful stock repurchases or redemptions; or (iv) any transaction from which the director derived an improper personal benefit. Such 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 such as 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 such indemnification.

LookSmart has entered into agreements to indemnify its directors and executive officers, in addition to the indemnification provided for in its Bylaws. These agreements, among other things, indemnify LookSmart's directors and executive officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of LookSmart arising out of such 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 such 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 and on March 23, 1999.

In July 1996, we sold 60,000,000 shares of common stock at the purchase price of $0.00025 per share to The Reader's Digest Association and 12,000,000 shares of common stock at the purchase price of $0.00025 per share to Buy Back the Farm, Inc., a Delaware company 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 7,760,000 shares of common stock at a purchase price of $0.00025 per share to The Reader's Digest Association.

In September 1997, we repurchased 67,760,000 shares of our common stock from The Readers Digest Association in exchange for a warrant to purchase 6,000,000 shares of our common stock at an exercise price of $0.00025 per share.

Preferred Stock Transactions In May 1998, we sold an aggregate of 4,235,076 shares of Series A preferred stock to certain investors at a purchase price of $0.5344 per share in consideration of the cancellation of indebtedness by those investors. These shares of Series A preferred stock shall automatically convert into 4,235,076 shares of common stock upon the completion of this offering. Also, in May 1998, we sold an aggregate of 9,551,832 shares of Series B preferred stock to Cox Interactive Media, Inc. at a purchase price of $0.6287 per share, which shares shall automatically convert into 9,551,832 shares of common stock upon the completion of this offering. In October 1998, we sold an aggregate of 4,000,000 shares of Series 1 Junior preferred stock to certain investors in connection with the acquisition of BeSeen.com, Inc., which shares shall automatically convert into 4,000,000 shares of common stock upon the completion of this offering. In March to April 1999, we sold an aggregate of 8,055,686 shares of Series C preferred stock to certain investors at a purchase price of $7.50 per share, which shares shall automatically convert into 8,055,686 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.

Purchaser(1)	Shares of Series A Preferred Stock	Shares of Series B Preferred Stock	Shares of Series C Preferred Stock	Shares of Series 1 Junior Preferred Stock

Cox Interactive Media, Inc.(2)(3)(6)..		9,551,832	1,606,702	
Entities Affiliated with Australian Mezzanine Investments Pty Limited(2)(4).....	2,807,016		266,667	
Entities Affiliated with Macquarie Bank Limited(2)(5).....	1,734,624		2,004,335	
Entrepreneur America, LLC(8).....			114,165	
Drew Duncan(2).....				1,506,624
Thomas Duncan and Mary Duncan(2).....				454,504
Allen Lee(2).....			79,929	421,208
Josh Elmore(2).....				1,447,564
Conpress Trading Pty Limited(2).....			850,000	
Entities Affiliated with Amerindo Investment Advisors, Inc.(2)(9).....			653,333	
Entities Affiliated with Sand Hill Capital LLC(2)(7).....	1,000,000		168,208	
Jokren Pty Limited Instanz Nominees Pty Limited(2)(10).....	467,832		133,332	

(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, Inc is a division. Mr. Whiteside disclaims beneficial ownership of the shares owned by Cox Interactive Media, Inc. (4) Mr. Riley, one of our directors, is a Director of AMWIN Innovation Fund, Director and Company Secretary of Australian Mezzanine Investments Pty Limited, a 50% shareholder in AMWIN Innovation Fund, 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 701 holds 2,807,016 shares of Series A preferred stock, and Perpetual Trustee Company Limited as Trustee of the Australian Mezzanine Investments No. 2 Trust holds 266,667 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 673,608 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 322,812 shares of Series A preferred stock, holds a warrant to purchase 1,008,308 shares of Series A preferred stock, and holds a warrant to purchase 293,333 shares of Series C preferred stock. Perpetual Trustee Company Limited as Trustee for Macquarie Technology Fund 1A holds 201,752 shares of Series A preferred stock and 47,408 shares of Series C preferred stock. Perpetual Trustee Company Limited as Trustee for Macquarie Technology Fund 1B holds 201,752 shares of Series A preferred stock and 47,408 shares of Series C preferred stock. Belike Nominees Pty Limited holds 1,265,044 shares of Series C preferred stock. Perpetual Trustee Company limited as Trustee for Macquarie Select Opportunities Fund holds ,000 shares of Series C preferred stock. Macquarie PRISM Pty Limited holds 217,142 shares of Series C preferred stock. (6) Cox Interactive Media, Inc. also holds a warrant to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of $3.75 per share

and 500,000 shares of common stock. (7) In February 1999, Sand Hill Capital LLC exercised its warrant to purchase 1,000,000 shares of our Series A preferred stock. Sand Hill Capital Partners I, LLC holds 168,208 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 114,165 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. (9) The aggregate shares listed for Entities affiliated with Amerindo Investment Advisors, Inc. are owned as follows: Amerlook Investments, LLC holds 12,500 shares of Series C preferred stock. ATGFII holds 440,783 shares of Series C preferred stock. Litton Master Trust holds 200,000 shares of Series C preferred stock. (10) Jokren Pty Limited and Instanz Nominees Pty Limited are affiliated entities. Jokren Pty Limited holds 233,916 shares of Series A preferred stock and 133,332 shares of Series C preferred stock. Instanz Nominees Pty Limited holds 233,916 shares of Series A preferred stock.

In May 1998, we entered into a development, licensing and affiliation agreement with Cox Interactive Media, Inc., 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 and $6,647 for the three months ended March 31, 1999.

Upon the consummation 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 unaffiliated third 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 May 31, 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 is based on 42,564,245 shares outstanding as of May 31, 1999, assuming conversion of the preferred stock, and shares outstanding after this offering assuming no exercise of the underwriters' over- allotment option.

Shares Beneficially Owned (2) Percent Percent Prior to After Beneficial Owner Number Offering Offering Five Percent Stockholders Cox Interactive Media, Inc.(3)..... 12,658,534 29.7% 1400 Lake Hearn Drive Atlanta, GA 30319 The Reader's Digest Association, Inc.(4)..... 6,000,000 14.1 Reader's Digest Road Pleasantville, NY 10570 Evan Thornley(1)(5)..... 5,150,000 12.1 Tracey Ellery(1)(5)..... 5,150,000 12.1 Entities Affiliated with Macquarie Bank Limited(6)..... 3,738,959 8.8 Macquarie Bank Limited Level 16, 20 Bond Street Sydney, NSW, 2000 Australia Entities Affiliated with Australian Mezzanine Investments Pty Limited(7)..... 3,073,683 7.2 Australian Venture Capital Nominee Pty Ltd Level 2, The Terrace 155 George Street Sydney, NSW, 2000 Australia Named Executive Officers and Directors Scott Whiteside(6)(8)..... 12,658,534 29.8 Cox Interactive Media, Inc. 1400 Lake Hearn Drive Atlanta, GA 30319 Evan Thornley(1)(5)..... 5,150,000 12.1 Tracey Ellery(1)(5)..... 5,150,000 12.1 Anthony Castagna(9)..... 3,738,959 8.8 Macquarie Bank Limited Level 16, 20 Bond Street Sydney, NSW, 2000 Australia Paul Riley(10)..... 3,073,683 7.2 Australian Venture Capital Nominee Pty Ltd. Level 2, The Terrace 155 George Street Sydney, NSW, 2000 Australia Brian Cowley(11)..... 832,500 2.0 Robert J. Ryan(12)..... 819,165 2.0 77 Storm King Road Hamilton, MT 59840 Barbara Read(1)(13)..... 82,500 * Michael Reaves(1)(14)..... 56,625 * All current directors and executive officers as a group (15 persons)(5)(15)..... 25,036,200 55.0% * 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, 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 such options, but are not deemed outstanding for the purposes of computing the percentage ownership of each other person. Unless otherwise 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 500,000 shares of common stock, common stock issued upon automatic conversion of 11,158,534 shares of preferred stock and common stock issuable upon exercise of a warrant to purchase 1,000,000 shares of common stock. (4) The Reader's Digest Association, Inc. holds a warrant to purchase 6,000,000 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 (a) common stock issued upon automatic conversion of 322,812 shares of preferred stock and common stock issuable upon exercise of warrants to purchase an aggregate of 1,301,641 shares of preferred stock owned by Macquarie Bank Limited; (b) 249,160 shares of preferred stock owned by Perpetual Trustee Company Limited as Trustee for Macquarie Technology Fund 1A; (c) 249,160 shares of preferred stock owned by Perpetual Trustee Company Limited as Trustee for Macquarie Technology Fund 1B; (d) 1,265,044 shares of preferred stock owned by Belike Nominees Pty Limited; (e) 134,000 shares of preferred stock owned

by Macquarie Select Opportunities Fund; and (f) 217,142 shares of Series C preferred stock owned by Macquarie PRISM Pty Limited. (7) Includes of common stock issued upon automatic conversion of 2,807,016 shares of preferred stock owned by Australian Venture Capital Nominee Pty Ltd as Trustee for AMWIN Innovation Fund 701, and 266,667 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, Inc., of which Cox Interactive Media, Inc. is a division. Cox Interactive Media owns 500,000 shares of common stock, 1,158,534 shares of preferred stock convertible into common stock, and a warrant to purchase 1,000,000 shares of common stock. Mr. Whiteside disclaims beneficial ownership of the shares held by Cox Interactive Media, Inc. (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 3,373,959 shares. 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 3,073,683 shares. Mr. Riley disclaims beneficial ownership of the shares held by Australian Mezzanine Investments Pty Limited and its affiliated entities. (11) Includes 135,000 shares subject to 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 114,165 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 15,000 shares subject to stock options that are exercisable within 60 days. (14) Includes 22,625 shares subject to stock options that are exercisable within 60 days. (15) Mr. Reaves and Ms. Read are no longer executive officers of LookSmart.

Description of Capital Stock

General

Our Certificate of Incorporation currently authorizes 70,129,535 shares of common stock, par value $0.001 per share and 29,870,465 shares of preferred stock. As of May 31, 1999, 15,720,151 shares of common stock were outstanding and 26,842,594 shares of preferred stock, which is comprised of 5,235,076 shares of Series A preferred stock, 9,551,832 shares of Series B preferred stock, 8,055,686 shares of Series C preferred stock and 4,000,000 shares of Series 1 Junior preferred stock. These shares of preferred stock are convertible into an aggregate of 26,842,594 shares of common stock. As of May 31, 1999, we had 103 stockholders.

Our Restated Certificate of Incorporation, which will become effective upon the closing of this offering, authorizes the issuance of up to 100,000,000 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 granted 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 such 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 a third party to acquire, or of discouraging a third party 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 May 31, 1999, giving effect to the conversion of all preferred stock into common stock, we had outstanding warrants to purchase an aggregate of 10,303,557 shares of common stock, all of which are immediately exercisable. Of these, warrants to purchase 8,016,616 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 May 31, 1999:

Number of Exercise Date of grant Type warrants price Expires

```
September 1997..... Common             6,000,000 $0.0003  September 2007
March 1998.............. Series A preferred   673,608 $0.5344  March 2005
May 1998................ Series A preferred 2,016,616 $0.6287  May 2005
May 1998................ Common             1,000,000 $3.7500  May 2003
```

September 1998.....	Common	320,000	$0.6275	September 2003
March 1999.....	Series C preferred	293,333	$ 7.50	March 2002

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

Pursuant to the Second Amended and Restated Investors' Rights Agreement (Rights Agreement) dated March 24, 1999, the holders of approximately 28,139,090 shares of common stock, and the holders of 2,983,557 shares of Common Stock issuable upon exercise of warrants (together, Registrable Securities) or their permitted transferees will have certain rights to require LookSmart to register those shares under the Securities Act six months after the sale of the shares offered hereby. Subject to limitations in the Rights Agreement, 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, among other limitations, that the proposed aggregate price to the public is at least $1,000,000.

Each of the foregoing registration rights is qualified by certain conditions and limitations, 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 pursuant to the Rights Agreement are entitled to include their shares of common stock in the registration, subject to the ability of the

underwriters for any such offering to limit the number of shares included in the offering so long as the shares of holders of registrable securities wishing to register their shares are not reduced below 25% of the total number of shares in that registration. Pursuant to the Restricted Stock Agreement between Guthy-Renker Internet, LLC and LookSmart, the holders of 1,700,000 shares of our common stock will have certain "piggyback" registration rights, which rights shall be subject to the right of the underwriters to limit the number of these shares to be included in the registration. LookSmart will bear all fees, costs and expenses of all registrations, other than underwriting discounts and commissions. Upon the effectiveness of any registration statement filed to register LookSmart's common stock, such shares would become freely tradable, without any restrictions imposed by the Securities Act.

Effect of Certain Provisions of the Certificate of Incorporation and Bylaws and the Delaware Anti-Takeover Statute Some provisions of LookSmart's Restated Certificate of Incorporation and Bylaws may make it more difficult for stockholders to take certain corporate actions. They may also make it more difficult for a third party to acquire, or may discourage a third party from attempting to acquire, control of LookSmart. Such provisions could limit the price that certain investors might be willing to pay in the future for shares of LookSmart's common stock. Certain of these 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 is subject to Section 203 of the Delaware General Corporation Law which, subject to some exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder, unless: (i) 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; (ii) upon consummation 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 commenced, 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 subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to such 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 a third party from making a tender offer or otherwise attempting to obtain control of LookSmart and may maintain the incumbency of the Board of Directors, as the classification of the Board of Directors generally increases the difficulty of replacing a majority of the directors. The Amended and 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 shares of common stock, assuming the issuance of shares of common stock offered hereby and no exercise of options after May 31, 1999. Of these shares, the 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 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. Of these shares, shares will be subject to "lock-up" agreements described below on the effective date of this offering. On the effective date of this offering, no shares not subject to lock-up agreements will be eligible for sale pursuant to Rule 144(k). Upon expiration of the lock-up agreements 180 days after the effective date of this offering, shares will become eligible for sale, subject in most cases to the limitations of Rule 144. In addition, holders of stock options could exercise such options and sell certain of the shares issued upon exercise as described below.

Days After Date of Shares Eligible this Prospectus for Sale Comment

Upon Effectiveness..	Freely tradeable shares salable under Rule 144(k) that are not subject to the lock-up
180 days.....	Lock-up released; shares saleable under Rules 144 and 701

As of May 31, 1999, a total of 7,520,234 shares of common stock were subject to outstanding options under our 1998 Stock Plan, approximately 561,076 of which were vested and exercisable. However, all of these shares are subject to lock-up agreements. All options held by officers and directors of LookSmart are subject to 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 shares of common stock subject to 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 granted pursuant to the 1998 Stock Option Plan and 1999 Employee Stock Purchase Plan generally would be available for resale in the public market.

Our officers and directors and all of our existing stockholders agreed not to sell or otherwise dispose of any of their shares for a period of 180 days after the date of this offering. Goldman, Sachs & Co. may in their sole discretion release all or any portion of the shares subject to 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 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 such 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 such 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 granted by an issuer before it becomes subject to the reporting requirements of the Securities Exchange Act of 1934, along with the shares acquired upon exercise of such options (including exercises after the date of this prospectus). Securities issued in reliance on Rule 701 are restricted securities and, subject to 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. Certain legal matters 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 certain current and former members of and persons associated with Wilson Sonsini Goodrich & Rosati, P.C., and certain members of Wilson Sonsini Goodrich & Rosati, P.C., beneficially own an aggregate of 13,332 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 said 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 said firm as experts in auditing and accounting.

The financial statements of Guthy-Renker Internet, LLC as of December 31, 1997 and January 3, 1999 and for the year ended December 31, 1997 and the 53 weeks ended January 3, 1999, appearing in this prospectus, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such 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 said 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 said 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 SEC as an exhibit to the registration statement, reference is made to the exhibit for a more complete description of the matter involved.

We will be filing quarterly and annual reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the public reference facilities of the SEC in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's website at http://www.sec.gov.

Index to the Financial Statements

Looksmart, Ltd. and Subsidiaries Consolidated Financial Statements

Page

Report of Independent Accountants..... F-3 Consolidated Balance Sheets at December 31, 1997 and 1998 and at March 31, 1999 (unaudited)..... F-4 Consolidated Statements of Operations for the period July 19, 1996 (inception) through December 31, 1996 and for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1998 and 1999 (unaudited)..... F-5 Consolidated Statements of Stockholders' Equity for the period July 19, 1996 (inception) through December 31, 1996 and for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1999 (unaudited)..... F-6 Consolidated Statements of Cash Flows for the period July 19, 1996 (inception) through December 31, 1996 and for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1998 and 1999 (unaudited)..... F-7 Notes to Consolidated Financial Statements..... F-8

Looksmart, Ltd. and Subsidiaries Unaudited Pro Forma Combined Financial Information

Unaudited Pro Forma Combined Financial Information..... F-23 Unaudited Pro Forma Combined Balance Sheet as of March 31, 1999..... F-24 Unaudited Pro Forma Combined Statements of Operations for the year ended December 31, 1998..... F-25 Unaudited Pro Forma Combined Statements of Operations for the three months ended March 31, 1999..... F-26 Notes to Unaudited Pro Forma Combined Financial Information..... F-27

Beseen.com, Inc. Financial Statements

Balance Sheets at December 31, 1997 and September 30, 1998..... F-28 Report of Independent Accountants..... F-29 Statements of Operations for the periods January 27, 1997 (inception) through December 31, 1997 and September 30, 1997 and for the nine months ended September 30, 1998..... F-30 Statement of Stockholders' Equity for the period January 27, 1997 (inception) through September 30, 1998..... F-31 Statements of Cash Flows for the periods January 27, 1997 (inception) through December 31, 1997 and September 30, 1997 and for the nine months ended September 30, 1998..... F-32 Notes to Financial Statements..... F-33 INDEX TO THE FINANCIAL STATEMENTS--(Continued)

Guthy-renker Internet, Llc Financial Statements

Page

Report of Independent Auditors..... F-35 Balance Sheets at December 31, 1997 and January 3, 1999..... F-36 Statements of Operations for the year ended December 31, 1997 and the 53 weeks ended January 3, 1999..... F-37 Statements of Members' Deficit for the period January 1, 1997 through January 3, 1999..... F-38 Statements of Cash Flows for the year ended December 31, 1997 and the 53 weeks ended January 3, 1999..... F-39 Notes to Financial Statements..... F-40 Balance Sheets at April 4, 1999 (unaudited) and January 3, 1999..... F-43 Statements of Operations for the quarter ended March 31, 1998 and the 13 weeks ended April 4, 1999 (unaudited)..... F-44 Statements of Cash Flows for the quarter ended March 31, 1998 and the 13 weeks ended April 4, 1999 (unaudited)..... F-45 Notes to Financial Statements (unaudited)..... F-46

Itw Newcorp, Inc. Financial Statements

Report of Independent Accountants..... F-47 Balance Sheets at December 31, 1997 and 1998 and at March 31, 1999 (unaudited)..... F-48 Statements of Operations for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1998 and 1999 (unaudited)..... F-49 Statements of Stockholders' Equity for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1999 (unaudited)..... F-50 Statements of Cash Flows for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1998 and 1999 (unaudited)..... F-51 Notes to Financial Statements..... F-52

Homebase Directories Pty Ltd. Financial Statements

Report of Independent Accountants..... F-55 Balance Sheet at July 24, 1996..... F-56 Statement of Operations for the period January 1, 1996 through July 24, 1996..... F-57 Statement of Stockholders' Deficit for the periods ended January 1, 1996 and July 24, 1996..... F-58 Statement of Cash Flows for the periods ended January 1, 1996 and July 24, 1996..... F-59 Notes to Financial Statements..... F-60

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

Looksmart, Ltd.

Consolidated Balance Sheets

(In Thousands)

	December 31,		March 31,	Pro forma at March 31,
	1997	1998	1999	1999
			(unaudited)	
Assets				
Current assets:				
Cash and cash equivalents	$ 48	$ 3,501	$58,429	$ 58,199
Trade accounts receivable, net of allowance for doubtful accounts of $0, $127 and $142 in 1997, 1998 and March 31, 1999	41	2,895	16,546	--
Prepaid expenses	10	791	836	--
Other assets	4	61	238	--
Total current assets	103	7,248	76,049	75,819
Property and equipment, net	707	1,979	4,038	--
Goodwill and intangible assets, net of accumulated amortization of $615, $1,220 and $1,614 in 1997, 1998 and March 31, 1999	1,435	4,244	3,849	--
Other assets	30	119	134	--
Total assets	$ 2,275	$13,590	$84,070	$ 83,840
Liabilities and Stockholders' Equity (Deficit)				

Current liabilities:

Trade accounts payable $ 439 $ 1,325 $ 1,508 -- Other accrued liabilities 572 2,873 4,065 -- Deferred revenue -- 9,234 17,278 -- Income taxes payable 217 323 199 -- Capital lease obligation--current portion -- -- 137 -- Note payable--current -- -- 1,500 -- Total current liabilities 1,228 13,755 24,687 23,187 Deferred revenue -- 96 6,307 -- Capital lease obligation -- -- 375 -- Note payable to former stockholder ... 1,500 1,500 -- -- Total liabilities 2,728 15,351 31,369 29,869 Commitments (Note 5). Stockholders' equity (deficit): Series A convertible preferred stock, $.001 par value; 7,925,300 shares authorized and designated at December 31, 1998 and March 31, 1999, respectively (none pro forma); 4,235,076 and 5,235,076 issued and outstanding at December 31, 1998 and March 31, 1999, respectively (none pro forma); aggregate liquidation preference of $2,263 and $2,797 at December 31, 1998 and March 31, 1999 (none pro forma) -- 4 5 -- Series B convertible preferred stock, $.001 par value; 9,551,832 shares authorized and designated, issued and outstanding at December 31, 1998 and March 31, 1999 (none pro forma); aggregate liquidation preference $6,005 (none pro forma) -- 10 10 -- Series C convertible preferred stock, $.001 par value; 8,393,333 shares authorized and designated at March 31, 1999 (none pro forma), 8,005,060 shares issued and outstanding at March 31, 1999 (none pro forma); aggregate liquidation preference of $60,038 (none pro forma) -- -- 8 -- Series 1 Junior convertible preferred stock, $.001 par value; 4,000,000 shares authorized and designated, issued and outstanding at December 31, 1998 and March 31, 1999 (none pro forma);

aggregate liquidation preference of $2,000 (none pro forma)..... -- 4 4 -- Common stock, $.001 par value; 54,000,000 and 70,129,535 shares authorized at December 31, 1998 and March 31, 1999, respectively (100,000,000 pro forma); 12,000,000, 12,972,652, and 12,972,652 issued and outstanding at December 31, 1997, 1998 and March 31, 1999, respectively (47,781,236 pro forma)..... 12 14 14 48 Additional paid-in capital..... 9,903 21,170 85,520 87,639 Warrants..... 85 1,408 2,851 1,995 Unearned compensation..... -- (1,044) (5,669) (5,669) Cumulative translation adjustment.... (39) (55) (48) (48) Accumulated deficit..... (10,414) (23,272) (29,994) (29,994) Total stockholders' equity (deficit)..... (453) (1,761) 52,701 53,971 Total liabilities and stockholders' equity (deficit)..... $ 2,275 $13,590 $84,070 $ 83,840 The accompanying notes are an integral part of these consolidated financial statements.

Looksmart, Ltd.

Consolidated Statements of Operations and Comprehensive Income

(In Thousands, Except Per Share Amounts)

Period from July 19, 1996 (Inception) through December 31, 1996	Year Ended December 31, 1997	1998	Three Months Ended March 31, 1998	1999
			(unaudited)	

Revenues..... $ 3 $ 949 $ 8,785 $ 804 $ 6,580 Cost of revenues..... 90 700 6,819 626 2,840 Gross profit (loss).. (87) 249 1,966 178 3,740 Operating expenses: Sales and marketing... 1,115 3,398 5,615 748 3,900 Product development... 915 2,605 4,427 528 3,884 General and administrative..... 504 1,165 2,746 362 1,616 Amortization of goodwill..... 205 410 605 103 394 Amortization of unearned compensation..... -- -- 133 -- 635 Write off of in- process research and development..... 338 Total operating expenses..... 2,739 7,578 13,864 1,741 10,429 Loss from operations..... (2,826) (7,329) (11,898) (1,563) (6,689) Non-operating income (expense) Other income (expense), net..... (19) (3) (139) (34) (1) Interest income (expense), net..... 9 (16) (675) (30) 20 Total non-operating income (expense).... (10) (19) (814) (64) 19 Loss before income taxes..... (2,836) (7,348) (12,712) (1,627) (6,670) Income taxes..... 64 166 146 45 52 Net loss..... $ (2,900) $ (7,514) $ (12,858) $ (1,672) $ (6,722) Other comprehensive income Change in foreign currency translation adjustment during the period..... 1 (40) (16) 3 7 Comprehensive loss... $ (2,899) $ (7,554) $ (12,874) $ (1,669) $ (6,715) Basic and diluted loss per share..... $ (0.04) $ (0.12) $ (1.03) $ (0.14) $ (0.52) Weighted average shares outstanding..... 77,298,272 61,059,333 12,526,356 12,001,400 12,972,652 Pro forma basic and diluted net loss per share (unaudited)..... $ (0.47) $ (0.17) Weighted average shares outstanding used in the pro forma calculation (unaudited)..... 27,386,715 39,149,991 The accompanying notes are an integral part of these consolidated financial statements

Looksmart, Ltd.

Consolidated Statements of Stockholders' Equity (Deficit)

(In Thousands, Except Share Amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-in		Unearned	Cumulative Translation	Total Accumulated	Stockholders'
	Shares	Amount	Shares	Amount	Capital	Warrants	Compensation	Adjustment	Deficit	Equity
Balance at July 19, 1996 (inception).....	--	$--	--	$--	$ --	$ --	$ --	$ --	$ --	Common stock issued for acquisition of HomeBase Directories.....	--	--	60,000,000	60	1,990	--	--	--	--	2,050	Stockholder contribution....	--	--	--	--	2,940	--	--	--	--	2,940	Translation adjustment.....	--	--	--	--	--	--	--	--	--	--	Net loss.....	--	--	--	--	--	--	--	--	(2,900)	(2,900)	Balance at December 31, 1996.....	--	--	60,000,000	60	4,930	--	--	--	(2,900)	2,090	Common stock issued for cash.....	--	--	19,760,000	20	135	--	--	--	--	155	Stockholder contribution....	--	--	--	--	4,855	--	--	--	--	4,855	Common stock repurchased and exchanged for warrants.....	--	--	(67,760,000)	(68)	(17)	85	--	--	--	--	Translation adjustment.....	--	--	--	--	--	--	--	(39)	--	(39)	Net loss.....	--	--	--	--	--	--	--	--	(7,514)	(7,514)	Balance at December 31, 1997.....	--	--	12,000,000	12	9,903	85	--	(39)	(10,414)	(453)	Common stock issued upon exercise of options.....	--	--	267,652	1	4	--	--	--	--	5	Common stock issued for cash.....	--	--	705,000	1	8	--	--	--	--	9	Preferred stock Series A issued for conversion of notes, net of costs of $424,939.....	4,235,076	4	--	--	1,858	--	--	--	--	1,862	Preferred stock Series B issued for cash and conversion of notes.....	9,551,832	10	--	--	5,995	--	--	--	--	6,005	Preferred stock Series 1 Junior issued as part of acquisition of BeSeen.com...	4,000,000	4	--	--	2,996	--	--	--	--	3,000	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....	--	--	--	--	1,176	--	(1,176)	--	--	--	Amortization of unearned compensation....	--	--	--	--	--	--	132	--	--	132	Translation adjustment.....	--	--	--	--	--	--	--	(16)	--	(16)	Net loss.....	--	--	--	--	--	--	--	--	(12,858)	(12,858)	Balance at December 31, 1998.....	17,786,908	18	12,972,652	14	21,170	1,408	(1,044)	(55)	(23,272)	(1,761)	Preferred stock Series A issued for cash (unaudited).....	1,000,000	1	--	--	532	--	--	--	--	533	Preferred stock Series C issued for cash, net of costs of $28,730 (unaudited).....	8,005,060	8	--	--	60,001	--	--	--	--	60,009	Issuance of warrants with preferred stock.....	--	--	--	--	(1,443)	1,443	--	--	--	--	Unearned compensation (unaudited).....	--	--	--	--	5,260	--	(5,260)	--	--	--	Amortization of unearned compensation (unaudited)	--	--	--	--	--	--	635	--	--	635	Translation adjustment (unaudited).....	--	--	--	--	--	--	7	--	7	Net loss (unaudited).....	--	--	--	--	--	--	--	--	(6,722)	(6,722)	Balance at March 31, 1999 (unaudited).....	26,791,968	$27	12,972,652	$14	$85,520	$2,851	$(5,669)	$(48)	$(29,994)	$52,701

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

Looksmart, Ltd.

Consolidated Statements of Cash Flows

(In Thousands)

Period from July 19, 1996 (inception) Year Ended Three Months through December 31, Ended March 31, December 31, ---------- ---------- 1996 1997 1998 1998 1999 (unaudited) Cash flows from operating activities: Net loss..... $(2,900) $(7,514) $(12,858) $(1,672) $(6,722) Adjustments to reconcile net loss to net cash used in operating activities: Depreciation and amortization..... 259 679 956 194 632 Amortization of unearned compensation..... -- -- 133 -- 635 Write-off of in-process research and development ..... -- -- 338 -- -- Warrants and other non- cash charges..... -- -- 557 -- -- Loss from sale of equipment..... -- 12 12 -- -- Changes in operating assets and liabilities: Decrease (increase) in assets: Trade accounts receivable..... (3) (37) (2,709) (102) (13,651) Prepaid expenses..... (15) 5 (781) (14) (45) Other assets..... (5) (8) (170) (9) (198) Decrease (increase) in liabilities: Trade accounts payable.. 185 254 834 199 182 Other accrued liabilities..... 468 103 2,301 317 1,192 Deferred revenues..... -- -- 9,330 -- 14,255 Income taxes payable.... 64 133 130 49 (117) Net cash used in operating activities.. (1,947) (6,373) (1,927) (1,038) (3,837) Cash flows from investing activities: Acquisition of BeSeen.com, Inc. ..... -- -- (907) -- -- Purchases of property and equipment..... (707) (336) (1,573) (59) (1,783) Net cash used in investing activities.. (707) (336) (2,480) (59) (1,783) Cash flows from financing activities: Proceeds from note payable to former stockholder..... -- 1,500 -- -- -- Proceeds from stockholder contribution..... 2,940 5,010 -- -- -- Proceeds from notes..... -- -- 4,952 2,078 -- Repayment of notes..... -- -- (2,327) -- -- Proceeds from issuance of preferred stock..... -- -- 5,500 -- 60,542 Cash paid for issuance costs..... -- -- (263) -- -- Proceeds from issuance of common stock..... -- -- 14 -- -- Net cash provided by financing activities.. 2,940 6,510 7,876 2,078 60,542 Effect of exchange rate changes on cash..... -- (39) (16) 3 6 Increase in cash and cash equivalents..... 286 (238) 3,453 984 54,928 Cash and cash equivalents, beginning of period..... -- 286 48 48 3,501 Cash and cash equivalents, end of period..... $ 286 $ 48 $ 3,501 $ 1,032 $ 58,429 Supplemental disclosure of cash flow information (Note 10) The accompanying notes are an integral part of these consolidated financial statements

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 March 31, 1999 are net assets of the Company's Australian subsidiary totaling $421,000.

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 March 31, 1999 and for the three months ended March 31, 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 three months ended March 31, 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 18, 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. 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. Revenues from these contracts are based on the number of impressions (a view of an advertisement) delivered. Revenues are recognized as impressions are delivered. All prepayments are recorded as deferred revenues until the impressions have been delivered.

Revenues associated with long term fixed fee contracts are recognized as delivery milestones are met, 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 recorded at the fair value of the goods or services provided or received, whichever is more readily determinable in the given circumstance.

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

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 three months ended March 31, 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 and Series 1 Junior preferred stock 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 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.

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

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.

Three customers, in the aggregate, accounted for approximately 56% and 52% of total revenues for the years ended December 31, 1997 and 1998, respectively.

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.

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 March 31, 1999 reflects the conversion of the Series A, Series B, Series C and Series 1 Junior preferred stock into common stock as of March 31, 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,		March 31,
	1997	1998	1999
			(unaudited)
Computer equipment.....	$ 989	$2,240	$4,162
Furniture and fixtures....	42	207	343

Software.....	--	130	89
Leasehold improvements....	--	77	357
	1,031	2,654	4,951
Less accumulated depreciation and amortization.....	324	675	913
Property and equipment, net.....	$ 707	$1,979	$4,038

Cost and accumulated depreciation related to assets under capital lease obligations at March 31, 1999 were $523,000 and $15,000, respectively. No assets were subject to capital lease prior to 1999.

Depreciation was $55,000, $269,000 and $352,000 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. As of March 31, 1999, the Company was not in compliance with one covenant of the note.

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 for $2.9 million in the principal amount to investors of the Company. All notes bore interest at 10% per annum and included an issuance of 1,673,608 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 320,000 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 $63,000, $166,000 and $145,000 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 $10.3 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	$1,038
2000	932
2001	287
2002	287
2003	119

Thereafter	--
Total minimum lease payments	$2,663

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 $2.1 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 $523,000 as of March 31, 1999. Future minimum lease payments under this capital lease at March 31, 1999 are as follows (in thousands):

Capital

Nine months ended December 31, 1999	$167
Year ending December 31,	
2000	201
2001	201
2002	69
Thereafter	--
Total minimum lease payments	638
Less: Interest	125
Present value of net minimum lease payments	$513
Capital lease obligation--current portion	$137
Capital lease obligation--long-term	$375

Looksmart, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

6. Stockholders' Equity:

Convertible Preferred Stock The Company is authorized to issue 29,870,465 shares of $0.001 par value preferred stock. The following is outstanding:

Issued and Outstanding December 31, ---------- March 31, Designated 1997 1998 1999 (unaudited)

Series A	7,925,300	--	4,235,076	5,235,076	
Series B	9,551,832	--	9,551,832	9,551,832	
Series C	8,393,333	--	--	8,005,060	
Series 1 Junior	4,000,000	--	4,000,000	4,000,000	
Total convertible preferred		--	17,786,908	26,791,968	

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 March 31, 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 $0.5344, $0.6287 and $7.50 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 $0.50 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 $1.33592, $1.57167 and $11.25, respectively, as adjusted for stock splits, stock dividends and recapitalizations.

Conversion

Preferred stock is convertible, at the option of the holder, into shares of common stock at an initial conversion price of $0.5344 per share for Series A preferred stock, $0.6287 per share for Series B preferred stock, $7.500 per share for Series C preferred stock and $0.8750 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 29,870,465 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 67,760,000 shares of its common stock (approximately 85% of the outstanding shares), in exchange for a warrant to purchase 6,000,000 shares of common stock at an exercise price of $0.00025 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 6,000,000 shares of common stock at an exercise price of $0.00025 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, in connection with the issuance of Series A convertible preferred stock the Company issued warrants to purchase 2,016,616 shares of Series A preferred stock at $0.6287 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 also issued warrants to purchase 1,673,608 shares of Series A preferred stock at $0.5344 per share in connection with the issuance of convertible notes payable (Note 3). During 1998, 1,000,000 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, the Company issued a warrant to purchase up to 1,000,000 shares of common stock at an exercise price of $3.75 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 320,000 shares of common stock at an exercise price of $0.6275 per share in connection with a financing agreement. This warrant is immediately exercisable and expires in September 2003. See Note 3.

During 1999 the Company issued a warrant to purchase 293,333 shares of Series C preferred stock at $7.50 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.

As of March 31, 1999, all warrants outstanding are exercisable. The following table sets forth warrants outstanding as of March 31, 1999:

Number of Exercise Date of grant Type warrants price Expires

September 1997.....	Common	6,000,000	$0.0003	September 2007
March 1998.....	Series A preferred	673,608	$0.5344	March 2005
May 1998.....	Series A preferred	2,016,616	$0.6287	May 2005
May 1998.....	Common	1,000,000	$3.7500	May 2003
September 1998.....	Common	320,000	$0.6275	September 2003
March 1999.....	Series C preferred	293,333	$ 7.50	March 2002

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 6,500,000 and 9,900,000 shares of common stock for issuance under the Plan at December 31, 1998 and March 31, 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 March 31, 1999, 8,077,500 options were outstanding and 1,554,848 shares remained available for grant under the Company's stock option plan. At March 31, 1999, 1,495,380 options were exercisable at exercise prices ranging from $0.0143 to $3.7500, with an average exercise price of $0.1521.

Stock option activity under the plans during the periods indicated is as follows:

	Outstanding Options Number of Shares	Weighted Average Exercise Price Per Share
Balance at December 31, 1996.....	--	
Granted.....	8,934,000	$0.0071
Canceled.....	(5,976,000)	$0.0003
Balance at December 31, 1997.....	2,958,000	$.00143
Granted.....	3,616,000	$0.2413
Canceled.....	(416,348)	$0.0369
Exercised.....	(267,652)	$0.0143
Balance at December 31, 1998.....	5,890,000	$0.1521
(unaudited)		
Granted.....	2,255,500	$2.3574
Canceled.....	(68,000)	$0.8235
Balance at March 31, 1999.....	8,077,500	$0.7622

The Company accounts for employee stock options under APB No. 25 and related Interpretations in accounting 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 $1,176,580, respectively, for stock option grants where the deemed fair value of the option at grant date was in excess of the exercise price.

Looksmart, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

The following table summarizes information about stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.0143 to $0.0143.....	2,394,000	8.97	$0.0143	1,149,624	$0.0143
$0.1250 to $0.1250.....	378,000	9.63	$0.1250	--	--
$0.1750 to $0.1750.....	800,000	9.67	$0.1750	--	--
$0.2500 to $0.2500.....	1,572,000	9.85	$0.2500	--	--
$0.3750 to $0.3750.....	746,000	9.93	$0.3750	20,000	$0.3750
	5,890,000	9.62	$0.1521	1,169,624	$0.0215

The following information concerning the Company's stock options plan is provided in accordance with the SFAS No. 123, and "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.....	--	--

The weighted average fair value for options granted was $0.0041 and $0.4502 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..... $(0.12) $(1.03) Pro forma..... $(0.12) $(1.03) 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.

Looksmart, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

The Company recognizes revenues under this contract ratably as access to URLs is delivered and as the risk of refund diminishes. Payments received in advance of performance under the contract are recorded as deferred revenues.

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,			Three Months Ended March 31,	
	1996	1997	1998	1998	1999
Numerator-Basic and diluted: Net loss.....	$(2,900)	$(7,514)	$(12,858)	$(1,672)	$(6,722)
Denominator-Basic and diluted: Weighted average common shares outstanding.....	77,298,272	61,059,333	12,526,356	12,001,400	12,972,652
Basic and diluted loss per share.....	$(0.04)	$(0.12)	$(1.03)	$(0.14)	$(0.52)

In September, 1997, the Company reorganized its capital structure by entering into a transaction with a major stockholder in which it repurchased 67,760,000 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).

	Year Ended December 31,			Three Months Ended March 31,	
	1996	1997	1998	1998	1999
Preferred stock.....	--	--	8,468,898	--	18,911,473
Options.....	--	3,571,546	2,633,993	--	5,497,307
Warrants.....	--	1,525,000	7,017,370	6,045,785	9,523,635
Total dilutive shares...	--	5,096,546	18,120,261	6,045,785	33,932,415

9. BeSeen.com, Inc. Acquisition:

In October 1998, the Company acquired 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 4,000,000 shares of Series 1 Junior preferred stock. At the acquisition date the Series 1 Junior preferred stock was valued at $0.75 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 $3.9 million, of which $3.6 million was allocated to goodwill and intangible assets.

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

Period from July 19, 1996 (Inception) through December 31, 1996	Year Ended December 31,		Three Months Ended March 31,	
	1997	1998	1998	1999
			(unaudited)	

Supplemental disclosure of cash flow information: Cash paid during the year for: Interest..... -- $54 $ 274 $ 30 $ 48 Income taxes..... -- $-- $ -- $ -- $ 1 Noncash investing and financing activities: Equipment under capital lease..... -- $-- $ -- $ -- $ 513 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..... -- $-- $ 3,000 $ -- $ -- Note payable converted to deferred revenue under license agreement..... -- -- $11,385 -- -- 11. Related Party Transactions:

The Company receives licensing revenues from Cox Interactive Media, Inc. a shareholder 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 for the years ended December 31, 1997 and 1998, respectively, and $7,000 for the three months ended March 31, 1999.

12. Subsequent Events:

On April 9, 1999 the Company acquired certain assets and liabilities of Guthy-Renker Internet, LLC in exchange for $5 million cash and 1,700,000 shares of the Company's common stock. At the date of acquisition, the common shares were valued at $3.75 each. The total purchase price of this

Looksmart, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

transaction was $11.4 million including direct costs and expenses related to the acquisition, of which $11.3 million will be allocated to goodwill and intangible assets.

In April 1999, the Company issued 50,626 shares of Series C convertible preferred stock at $7.50 per share resulting in net proceeds of $372,000.

Subsequent to March 31, 1999, the Company granted options to purchase 974,750 shares of the Company's common stock to employees at exercise prices ranging from $3.75 to $11.00 per share.

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.

In June 1999, the Company acquired certain assets and liabilities of ITW NewCorp, Inc. in exchange for $5 million cash and warrants to purchase 280,000 shares of the Company's common stock at $1.875. At the date of acquisition, the common shares were valued at $11.00 each. The total purchase price of this transaction was $7 million including direct costs and expenses related to the acquisition, all of which will be allocated to goodwill and intangible assets.

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 4,000,000 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 1,700,000 shares of LookSmart common stock.

In June, 1999, LookSmart acquired substantially all of the assets of ITW NewCorp, Inc., in exchange for $5 million and warrants to purchase 280,000 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 three months ended March 31, 1999, set forth below, give effect to the Purchase Transactions as if they occurred on January 1, 1999. The unaudited pro forma combined balance sheet as of March 31, 1999 set forth below gives effect to the Purchase Transactions as if they occurred on March 31, 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 Balance Sheet

As of March 31, 1999

	LookSmart, Ltd.	Guthy-Renker Internet, LLC	ITW NewCorp, Inc.	Combined	Pro Forma Adjustments	Total
Assets						
Current Assets:						
Cash and cash equivalents	$ 58,429,349	--	$ 22,540	$ 58,451,889	$(10,000,000)(5)	$ 48,451,889
Accounts receivable, net	16,545,350	$ 5,000	125,556	16,675,906	(5,000)(4)	16,670,906
Other current assets	1,074,309	146,000	41	1,220,350	--	1,220,350
Total current assets	76,049,008	151,000	148,137	76,348,145	(10,005,000)	66,343,145
Property and equipment, net	4,037,873	72,000	8,659	4,118,532	--	4,118,532
Goodwill and intangibles, net	3,849,139	--	--	3,849,139	18,558,575 (6)	22,407,714
Other assets	134,171	--	--	134,171	--	134,171
Total assets	$ 84,070,191	$ 223,000	$156,796	$ 84,449,987	$ 8,553,575	$ 93,003,562
Liabilities and Stockholders' Equity						
Current liabilities:						
Accounts payable	$ 1,507,520	$ 789,000	$ 5,058	$ 2,301,578	(789,000)(4)	$ 1,512,578
Other accrued liabilities	4,064,788	277,000	2,483	4,344,271	(277,000)(4)	4,067,271
Income tax payable	199,325	--	--	199,325	--	199,325
Deferred revenue	17,278,570	47,000		17,325,570	(47,000)(4)	17,278,570
Note payable to former stockholder	1,500,000	--	--	1,500,000	--	1,500,000
Other current liabilities	137,430	773,000	--	910,430	(773,000)(4)	137,430
Total current liabilities	24,687,633	1,886,000	7,541	26,581,174	(1,886,000)	24,695,174
Deferred revenue--long term	6,306,120	--	--	6,306,120	--	6,306,120
Other liabilities	375,161	--	--	375,161	--	375,161
Total liabilities	31,368,914	1,886,000	7,541	33,262,455	(1,886,000)	31,376,455
Stockholders' equity						

(deficit):						
Preferred stock.....	26,792	--	--	26,792	--	26,792
Common stock.....	12,973	--	1	12,974	1,700 (1)	14,673
					(1)(3)	
Additional paid-in capital.....	86,963,993	--	6,436	86,970,429	6,373,300 (1)	93,337,293
					(6,436)(3)	
Warrants.....	1,408,520	--	--	1,408,520	2,550,830 (2)	3,959,350
Deferred compensation costs.....	(5,668,695)	--	--	(5,668,695)	--	(5,668,695)
Cumulative translation adjustment.....	(48,296)	--	--	(48,296)	--	(48,296)
Retained earnings (accumulated deficit)..	(29,994,010)	(1,663,000)	142,818	(31,514,192)	1,520,182 (3)	(29,994,010)
Total stockholders' equity (deficit).....	52,701,277	(1,663,000)	149,255	51,187,532	10,439,575	61,627,107
Total liabilities and stockholders' equity...	$ 84,070,191	$ 223,000	$156,796	$ 84,449,987	$ 8,553,575	$ 93,003,562

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	Pro Forma Combined	Adjustments	Total
Net revenues.....	$ 8,785,437	$298,465	$10,670,000	$389,285	$ 20,143,187	--	$ 20,143,187
Cost of revenues..	6,818,950	83,188	6,459,000	119,469	13,480,607	--	13,480,607
Gross profit (loss).....	1,966,487	215,277	4,211,000	269,816	6,662,580	--	6,662,580
Operating expenses:							
Sales and marketing.....	5,615,589	22,948	3,214,000	23,903	8,876,440	--	8,876,440
Research and product development....	4,765,855	30,594	58,422	4,854,871	--	4,854,871	
General and administrative..	2,746,120	186,935	1,532,000	70,006	4,535,061	--	4,535,061
Amortization of goodwill, intangibles and unearned compensation...	737,286	--	--	--	737,286	4,684,925(7)	5,422,211
Total operating expenses.....	13,864,850	240,477	4,746,000	152,331	19,003,658	4,684,925	23,688,583
Income (loss) from operations.....	(11,898,363)	(25,200)	(535,000)	117,485	(12,341,078)	(4,684,925)	(17,026,003)
Other income/ (expense), net...	(139,051)	--	--	--	(139,051)	--	(139,051)
Interest income/ (expense), net...	(675,025)	(1,025)	--	(1,432)	(677,482)	--	(677,482)
Income taxes.....	(145,353)	--					

(5,000) -- (150,353) 5,000(8) (145,353) Net income (loss)..... (12,857,792) (26,225) (540,000) 116,053 (13,307,964) (4,679,925)(9) (17,987,889) Change in foreign currency translation adjustment during the period..... (16,134) -- -- -- (16,134) -- (16,134) Comprehensive income (loss).... $(12,873,926) $(26,225) $ (540,000) $116,053 $(13,324,098) $(4,679,925)(9) $(18,004,023) Basic and diluted net loss per share..... $ (1.03) (9) $ (1.26) Weighted average number of shares of common stock outstanding used in computing basic and diluted net loss per share..... 12,526,356 1,700,000(9) 14,226,356 Pro forma basic and diluted net loss per share... $ (0.47) $ (0.59) Shares used in computing pro forma basic and diluted net loss per share..... 27,386,715 3,244,444(9) 30,631,159

Looksmart Ltd. and Subsidiaries

Unaudited Pro Forma Combined Statements of Operations

For the three months ended March 31, 1999

	LookSmart, Ltd for the Three Months Ended March 31, 1999	Guthy-Renker Internet, LLC for the 13 Weeks Ended April 4, 1999	ITW NewCorp, Inc. for the Three Months Ended March 31, 1999	Combined	Pro Forma Adjustments	Total
Net revenues.....	$ 6,580,416	$3,471,000	$193,408	$10,244,824	--	$10,244,824
Cost of revenues.....	2,840,903	2,287,000	68,618	5,196,521	--	5,196,521
Gross profit (loss).....	3,739,513	1,184,000	124,790	5,048,303	--	5,048,303
Operating expenses: Sales and marketing...	3,899,783	853,000	24,321	4,777,104	--	4,777,104
Research and product development.....	3,883,846	--	27,053	3,910,899	--	3,910,899
General and administrative.....	1,615,734	421,000	57,504	2,094,238	--	2,094,238
Amortization of goodwill, intangibles and deferred compensation.....	1,029,704	--	--	1,029,704	964,595(7)	1,994,299
Total operating expenses.....	10,429,067	1,274,000	108,878	11,811,945	964,595	12,776,540
Income (loss) from operations.....	(6,689,554)	(90,000)	15,912	(6,763,642)	(964,595)	(7,728,237)
Other income/(expense), net.....	(1,377)	--	--	(1,377)	--	(1,377)
Interest income/(expense), net..	20,289	--	(114)	20,175	--	20,175
Income Taxes.....	(51,579)	(5,000)	(56,579)	5,000(8)	(51,579)	
Net income (loss)....	(6,722,221)	(95,000)	15,798	(6,801,423)	(959,595)	(7,761,018)
Change in foreign currency translation adjustment during the period.....	6,898	--	--	6,898	--	6,898
Comprehensive income (loss).....	$(6,715,323)	$ (95,000)	$ 15,798	$(6,794,525)	$(959,595)	$(7,754,120)
Basic and diluted net loss per share.....	$ (0.52)	$ (0.53)				
Weighted average number of shares of common stock outstanding used in computing basic and diluted net loss per share.....	12,972,652	1,700,000(9)	14,672,652			
Pro forma basic and diluted net loss per share.....	$ (0.17)	$ (0.20)				
Shares used in computing pro forma basic and diluted net loss per share.....	39,149,991	39,149,991				

Notes to Unaudited Pro Forma Combined Financial Information

Pro forma adjustments for the unaudited pro forma combined balance sheet as of March 31, 1999 and the statements of operations for the year ended December 31, 1998 and the three months ended March 31, 1999 are as follows:

(1) Represents the issuance of 1,700,000 shares of LookSmart common stock pursuant to the asset purchase agreement with Guthy-Renker Internet, LLC (2) Represents the issuance of warrants to purchase 280,000 shares of LookSmart common stock pursuant to the asset purchase agreement with ITW NewCorp, Inc.

(3) Reflects the elimination of Guthy-Renker Internet, LLC and ITW NewCorp, Inc. stockholder's equity.

(4) Reflects assets and liabilities not assumed by LookSmart.

(5) Represents cash paid to Guthy-Renker Internet, LLC and ITW NewCorp, Inc. pursuant to asset purchase agreements.

(6) Represents the allocation to goodwill and intangible assets of the excess of the purchase price over fair value of net assets acquired as a result of the Purchase Transactions. The purchase price of the Purchase Transactions has been allocated to assets and liabilities based on management's best estimates of their fair value with the excess cost over the acquired net assets allocated to intangible assets and goodwill. This allocation has resulted in $1.1 million in intangible assets and $17.5 million in goodwill. These amounts are being amortized over periods ranging from three to five years.

(7) Represents the amortization of intangible assets and goodwill discussed above in note 6. 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.

(8) Represents elimination of Guthy-Renker Internet, LLC tax provision.

(9) 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 and Series 1 Junior preferred stock 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

Beseen.com, Inc.

Balance Sheets

December 31, September 30, 1997 1998 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

	Common Stock		Additional Paid in	Accumulated	Total Stockholders'
	Shares	Amount	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

	January 27, 1997 (Inception) to December 31, 1997	January 27, 1997 (Inception) to September 30, 1997	Nine Months Ended September 30, 1998
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.....	$ 6,500	$ 7,460	$ 11,616
Supplemental noncash activity: Conversion of note payable to equity.....	$ --	$ --	$ 42,025

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

Beseen.com, Inc.

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.

Beseen.com, Inc.

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	(531,000)	(2,102,000)
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, 1999	Year Ended December 31, 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.

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

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.

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

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 (unaudited)
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	(167,000)	(183,000)
	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	(1,568,000)	(1,663,000)
Total liabilities and members' deficit	$ 500,000	$ 223,000

GUTHY-RENKER INTERNET, LLC (a California limited liability company) STATEMENTS OF OPERATIONS (unaudited)

	13 Weeks Ended April 4, 1999	Quarter Ended 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)

	13 Weeks Ended April 4, 1999	Quarter Ended 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.

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

Itw Newcorp, Inc.

Balance Sheets

December 31, ---------- March 31, 1997 1998 1999 (Unaudited)

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

Itw Newcorp, Inc.

Statements of Operations

	Years Ended December 31,		Three Months Ended March 31,	
	1997	1998	1998	1999
			(unaudited)	
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	(124)	(1,432)	(371)	(114)
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

	Common Stock		Additional		Total
	Shares	Amount	Paid In Capital	Retained Earnings	Stockholder's 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 (unaudited).....	--	--	--	15,798	15,798
Balance at March 31, 1999 (unaudited).....	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
			(unaudited)	
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.

Unaudited Interim Financial Information:

The accompanying interim consolidated balance sheet, statements of operations and statements of cash flows at March 31, 1999 and for the three months ended March 31, 1998 and 1999 together with the related notes, are unaudited but include all adjustments (consisting of normal recurring accruals) 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 interim periods ended March 31, 1998 and 1999 are not necessarily indicative of results for the entire fiscal year or future periods.

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.

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

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 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		Additional Paid In	Cumulative Translation		Total
	Shares	Amount	Capital	Adjustment	Cumulative Deficit	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

For the period from January 1, 1996 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 (the "underwriters") have entered into an underwriting agreement with respect to the shares being offered. Subject to certain 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.

Underwriters Number of Shares Goldman, Sachs & Co. ..... BancBoston Robertson Stephens Inc. ..... Hambrecht & Quist LLC.....
Total.....

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 shares from LookSmart to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to 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. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

Paid by LookSmart No Exercise Full Exercise 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 such securities dealers may resell any shares purchased from the underwriters to certain 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 securityholders 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. See "Shares Eligible for Future Sale" for a discussion of certain 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.

We have applied 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 certain 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 such underwriter in stabilizing or short-sale covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise 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, in the over-the-counter market or otherwise.

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 of common stock offered hereby for certain individuals designated by LookSmart who have expressed an interest in purchasing such shares of common stock in the offering. The number of shares available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same basis as other shares offered hereby.

LookSmart estimates that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $.

LookSmart has agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

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.

Table of Contents

Page

Prospectus Summary..... 1 Risk Factors..... 5
Use of Proceeds..... 18 Dividend Policy..... 18
Capitalization..... 19 Dilution..... 20
Selected Consolidated Financial Data ..... 21 Management's Discussion and Analysis of Financial Condition and Results of Operations 22
Business..... 36 Management..... 48
Certain Transactions..... 57 Principal Stockholders..... 60 Description of Capital Stock 63
Shares Eligible for Future Sale..... 67 Legal Matters.....
69 Experts..... 69 Where You Can Find More Information..... 70 Index to the Financials Statements..... F-1
Underwriting..... U-1 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.

Shares

LookSmart, Ltd.

Common Stock

[Logo]

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.

Amount to be Paid

```
Registration fee..................................................... $   41,700
NASD filing fee.....................................................     20,500
```

Nasdaq National Market System listing fee	50,000
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	227,800
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 79,760,000 shares of common stock to two founding stockholders for an aggregate consideration of $19,940.00.

(2) On September 22, 1997, we repurchased 67,760,000 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 6,000,000 shares of common stock and a promissory note in the aggregate amount of $1,500,000. Such warrant has an exercise price of $0.00025 per share.

(3) On January 5, 1998, we issued a warrant for 1,000,000 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 673,608 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 224,536 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 705,000 shares of common stock to one director for an aggregate consideration of $8,906.25.

(12) On May 7, 1998, we issued 4,235,076 shares of Series A to seven investors for an aggregate consideration of $2,287,493.39, we issued 9,551,832 shares of Series B to one investor for an aggregate consideration of 6,004,997.98, and we issued a warrant to purchase 1,000,000 shares of common stock to one investor for an aggregate purchase price of $3,750,000.00 and warrants to purchase an aggregate of 2,016,616 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 320,000 shares of common stock to one investor for an aggregate purchase price of $200,800.00.

(14) On October 23, 1998, we issued 4,000,000 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 8,005,060 shares of Series C to forty- five investors for an aggregate of $60,037,950.00, and a warrant to purchase 293,333 shares of Series C to one investor for an aggregate purchase price of $2,199,997.50. One April 26, 1999, we issued 50,626 shares of Series C Preferred Stock to fourteen investors for an aggregate of $379,695.00.

(16) On April 9, 1999, we issued 1,700,000 shares of common stock to one investor for the aggregate consideration of $6,375,000.00 in connection with an asset purchase.

(17) Since our incorporation, we have issued, and there remain outstanding, options to purchase an aggregate of 7,904,584 shares of common stock with exercise prices ranging from $0.0143 to $11.00 per share. Since our incorporation, options to purchase 1,316,651 shares of common stock have been exercised for an aggregate consideration of $124,063.60.

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) and (16) 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(17) 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.
10.8+	Development Agreement with Cox Interactive Media, Inc.

Exhibit Number Description of Document

10.9+	Premier Positions on US Search Pages with Netscape Communications Corporation
10.10+	PBS Group Sponsorship Agreement
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 * to be filed by amendment (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.

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 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 June 11, 1999.

Looksmart, Ltd.

/s/ Evan Thornley By: _____ Evan Thornley, Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Evan Thornley and Patricia Cole, and each of them acting individually, as his true and lawful attorneys-in-fact and agents, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective amendments or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) increasing the number of securities for which registration is sought), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in- fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature Title Date

/s/ Evan Thornley (Evan Thornley)	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	June 11, 1999

/s/ Tracey Ellery President, Director June 11, 1999 (Tracey Ellery)

/s/ Patricia Cole (Patricia Cole)	Chief Financial Officer (Principal Financial and Accounting Officer)	June 11, 1999
/s/ Anthony Castagna (Anthony Castagna)	Director	June 11, 1999
/s/ Paul Riley (Paul Riley)	Director	June 11, 1999

/s/ Robert J. Ryan Director June 11, 1999 (Robert J. Ryan) /s/ Scott Whiteside Director June 11, 1999 (Scott Whiteside)

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

Schedule Ii--valuation and Qualifying Accounts

LookSmart, Ltd. and Subsidiaries

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Period from July 19, 1996 (inception) to December 31, 1996:				

Deferred tax valuation allowance	$ --	$ 986,000	$ --	$ 986,000
Total	$ --	$ 986,000	$ --	$ 986,000
Year ended December 31, 1997:				
Deferred tax valuation allowance	$ 986,000	$3,190,604	$ --	$4,176,604
Total	$ 986,000	$3,190,604	$ --	$4,176,604
Year ended December 31, 1998:				
Allowance for doubtful accounts	$ --	$ 127,371	$ --	$ 127,371
Deferred tax valuation allowance	4,176,604	4,657,689	--	8,834,293
Total	$4,176,604	$4,785,060	$56,104	$8,961,664

Exhibit Index

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.
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
10.11	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.)

Exhibit Number Description of Document

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 * to be filed by amendment </TEXT>