

Answers CORP
Form 10-Q
May 06, 2009

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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2009

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

For the transition period from ___ to ____

Commission File Number: 001-32255

ANSWERS CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

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

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

10001
(Zip Code)

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated Filer Accelerated filer Non-accelerated filer

Smaller reporting company

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

Yes No

The number of the registrant's shares of common stock outstanding was 7,876,270 as of May 5, 2009.

ANSWERS CORPORATION

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INTRODUCTORY NOTE

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

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

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PART I - FINANCIAL INFORMATION

Answers Corporation and Subsidiary

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

	March 31, 2009 \$	December 31, 2008 \$
Assets		
Current assets:		
Cash and cash equivalents	12,644	11,739
Accounts receivable	1,842	1,680
Prepaid expenses and other current assets	832	818
Total current assets	15,318	14,237
Long-term deposits (restricted)	263	257
Deposits in respect of employee severance obligations	1,302	1,337
Property and equipment, net of \$2,253 and \$2,083 accumulated depreciation as of March 31, 2009 and December 31, 2008, respectively	1,332	1,234
Other assets:		
Intangible assets, net of \$780 and \$769 accumulated amortization as of March 31, 2009 and December 31, 2008, respectively	934	994
Goodwill	437	437
Prepaid expenses, long-term, and other assets	285	220
Total other assets	1,656	1,651
Total assets	19,871	18,716
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	357	537
Accrued expenses and other current liabilities	720	751
Accrued compensation	734	628
Warrant to purchase units of Series B preferred stock and warrants	7,170	8,698
Capital lease obligation – current portion	80	78
Deferred revenues	10	16
Total current liabilities	9,071	10,708
Long-term liabilities:		
Liability in respect of employee severance obligations	1,481	1,534
Capital lease obligation, net of current portion	85	106
Deferred tax liability	29	26
Series A Warrants	3,072	-

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Total long-term liabilities	4,667	1,666
Commitments and contingencies		
Series A convertible preferred stock: \$0.01 par value; stated value and liquidation preference of \$100 per share; 6% cumulative annual dividend; 60,000 shares authorized, issued and outstanding as of March 31, 2009 and December 31, 2008	888	624
Stockholders' equity:		
Preferred stock: \$0.01 par value; 940,000 shares authorized, none issued	-	-
Common stock; \$0.001 par value; 100,000,000 shares authorized; 7,876,270 and 7,870,538 shares issued and outstanding as of March 31, 2009 and December 31, 2008	8	8
Additional paid-in capital	75,492	77,091
Accumulated other comprehensive loss	(28)	(28)
Accumulated deficit	(70,227)	(71,353)
Total stockholders' equity	5,245	5,718
Total liabilities and stockholders' equity	19,871	18,716

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

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Answers Corporation and Subsidiary

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

	Three months ended March 31	
	2009	2008
	\$	\$
Revenues:		
Advertising revenue	4,729	3,013
Answers service licensing	18	18
	4,747	3,031
Costs and expenses:		
Cost of revenue	1,059	1,393
Research and development	873	875
Community development, sales and marketing	499	762
General and administrative	1,219	1,131
Termination fees and write-off of costs relating to the terminated Lexico acquisition and abandoned follow-on offering	-	2,543
Total operating expenses	3,650	6,704
Operating income (loss)	1,097	(3,673)
Interest income (expense), net	(87)	55
Other income (expense), net	15	(38)
Gain resulting from fair value adjustment of Series A Warrants and warrant to purchase units of Series B preferred stock and warrants	2,010	-
Income (loss) before income taxes	3,035	(3,656)
Income tax benefit (expense), net	6	(11)
Net income (loss)	3,041	(3,667)
Basic and diluted net earnings (loss) per common share		
Basic	\$0.34	\$(0.47)
Diluted	\$0.08	\$(0.47)
Number of shares used in computing net earnings (loss) per common share		
Basic	7,871,097	7,859,890
Diluted	8,861,905	7,859,890

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

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Answers Corporation and Subsidiary

Consolidated Statements of Cash Flows (unaudited, in thousands)

	Three months ended March 31	
	2009	2008
	\$	\$
Cash flows from operating activities:		
Net income (loss)	3,041	(3,667)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	256	448
Decrease (increase) in deposits in respect of employee severance obligations	34	(179)
(Decrease) increase in liability in respect of employee severance obligations	(35)	311
Stock-based compensation to employees and directors	386	501
Write-off of amounts paid in prior periods, relating to the terminated Lexico acquisition and abandoned follow-on offering	-	663
Fair value adjustment of Series A Warrants and warrant to purchase units of Series B preferred stock and warrants	(2,010)	-
Loss on disposal of property and equipment	6	3
Decrease in deferred tax asset	3	3
Loss (gains) from exchange rate forward contracts, net	11	(38)
Exchange rate losses	(15)	38
Changes in operating assets and liabilities:		
Increase in accounts receivable, and prepaid expenses and other current assets	(182)	(22)
(Increase) decrease in prepaid expenses and other assets	(79)	33
(Decrease) increase in accounts payable	(260)	(176)
Increase in accrued expenses and accrued compensation	91	280
Decrease in deferred revenues	(6)	(6)
Net cash provided by (used in) operating activities	1,241	(1,808)
Cash flows from investing activities:		
Capital expenditures	(212)	(231)
Increase in long-term deposits	(7)	(13)
Proceeds from sales of investment securities	-	700
Net cash (used in) provided by investing activities	(219)	456
Cash flows from financing activities:		
Repayment of capital lease obligation	(19)	-
Dividends paid	(91)	-
Exercise of common stock options	8	-
Net cash used in financing activities	(102)	-
Effect of exchange rate changes on cash and cash equivalents	(15)	36
Net increase (decrease) in cash and cash equivalents	905	(1,316)
Cash and cash equivalents at beginning of period	11,739	