

Answers CORP
Form 10-K
March 17, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

- 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,
N.Y.
(Address of principal executive offices)

10001
(Zip Code)

Registrant's telephone number, including area code: (646) 502-4777

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock

Name of each exchange on which registered
The NASDAQ Capital Market

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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 definition 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
(do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, computed by reference to price at which the common equity was sold, or the average bid and asked price of such common stock as of June 30, 2010, was \$55,567,035. For purposes of this computation, the registrant has excluded the market value of all shares of its common stock reported as being beneficially owned by executive officers and directors and holders of more than 10% of the common stock on a fully diluted basis of the registrant; such exclusion shall not, however, be deemed to constitute an admission that any such person is an "affiliate" of the registrant. As of March 15, 2011, there were 8,134,602 issued and outstanding shares of common stock of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

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Pursuant to General Instruction G(3) to Form 10-K, the information required by Part III of this Annual Report on Form 10-K will be filed by amendment or included in the 2011 Proxy Statement, each filed with the Securities and Exchange Commission within 120 days of the end of the Registrant's year ended December 31, 2010.

Table of Contents

	Page
<u>Introductory Notes</u>	2
<u>Merger with AFCV</u>	2
<u>Forward Looking Statements</u>	2
<u>References to Web Property Usage Measurements</u>	2
Part I	
<u>Item 1</u> <u>Business</u>	3
<u>Item 2:</u> <u>Properties</u>	14
<u>Item 3:</u> <u>Legal Proceedings</u>	14
Part II	
<u>Item 5:</u> <u>Market for the Registrant’s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
<u>Item 7:</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 8:</u> <u>Financial Statements and Supplementary Data</u>	37
<u>Item 9:</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	74
<u>Item 9A:</u> <u>Controls and Procedures</u>	74
<u>Item 9B:</u> <u>Other Information</u>	74
Part III	
<u>Item 10:</u> <u>Directors, Executive Officers and Corporate Governance</u>	75
<u>Item 11:</u> <u>Executive Compensation</u>	79
<u>Item 12:</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	79
<u>Item 13:</u>	79

Table of Contents

INTRODUCTORY NOTES

As used herein, “Answers.com,” “the company,” “we,” “us,” “our,” and similar terms refer to, and include, Answers Corporation and its subsidiary, GuruNet Israel Ltd., unless the context indicates otherwise.

We use various trademarks and trade names in our business, including without limitation “Answers.com,” “WikiAnswers,” “WikiAnswers.comTM,” “AnswerthonTM,” “AnswerTips,” “blufr” and “1-Click AnswersTM”. This Annual Report also contains trademarks and trade names of other businesses that are the property of their respective holders.

Merger with AFCV

On February 2, 2011, the company entered into a merger agreement with AFCV Holdings, LLC, a Delaware corporation. Under the terms of the merger agreement, a subsidiary of AFCV will be merged with and into Answers.com, with Answers.com continuing as the surviving corporation and a wholly-owned subsidiary of AFCV. If the merger is completed, at the effective time of the merger, holders of Answers.com common stock, other than holders who properly exercise appraisal rights, will be entitled to receive \$10.50 in cash, without interest, less any applicable withholding taxes, for each share of Answers.com common stock owned at the effective time of the merger. Holders of the company’s Series A convertible preferred stock will receive an amount in cash, without interest, for each share of Series A stock owned equal to \$10.50 multiplied by (A) the stated value of \$101.76 plus accrued but unpaid dividends thereon accrued daily at the rate of 6% per annum calculated from the date on which the last regular quarterly dividend is paid in respect of the Series A stock to the effective time of the merger, divided by (B) \$4.50. Holders of the company’s Series B convertible preferred stock will receive an amount in cash without interest for each share of Series B stock owned equal to \$10.50 multiplied by (A) the stated value of \$100.00 plus accrued but unpaid dividends thereon accrued daily at the rate of 6% per annum calculated from the date on which the last regularly quarterly dividend is paid in respect of the Series B stock to the effective time of the merger, divided by (B) \$5.50. The merger is subject to various conditions, including the adoption of the merger agreement by the company’s stockholders. A special meeting of stockholders of the company has been called for April 12, 2011 to vote on adoption of the merger agreement. The company has distributed to stockholders and filed with the Securities and Exchange Commission a proxy statement in connection with the special meeting, which contains information concerning the merger agreement and the merger. Reference is made to the proxy statement for this information.

Forward Looking Statements

This Annual Report on Form 10-K contains “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These include, among other things, our expectations relating to the growth of our business and revenue, future traffic trends and patterns, future RPM trends and seasonality; our plans to continue investing resources in our core platform in areas such as content quality, maintaining and improving search engine optimization, performance, scalability, and usability; our plans for mobile Answers.com access; and our belief in the adequacy of our cash and cash equivalent to fund our working capital and operating requirements. These forward looking statements are based on expectations, estimates, goals and projections as of the date of this filing and are subject to significant risks and uncertainties. Actual results may differ materially from those expressed in forward looking statements.

In addition, our actual results could be affected by matters relating to merger agreement, including disruptions to our operations, strategic programs and partner relationships resulting from the announcement of or the preparation for the merger; operational restrictions under the merger agreement; costs, fees, expenses and charges related to the merger; and actual and potential litigation relating to the merger.

References to Web Property Usage Measurements

We gauge the effectiveness of our monetization efforts and trends by measuring our revenue per thousand page views, or RPM. Throughout this Annual Report, we refer to estimates of traffic, or page views, whose source is HBX Analytics, a tag-based Web analytics system offered by Omniture, Inc., a subsidiary of Adobe, Inc. (“Omniture”). Traffic measurements from this system are generated by our placement of tags on our Web pages. The Omniture system then independently generates traffic metrics. We also use Google, Inc.’s Google Analytics measurement services to estimate the breakdown of our traffic sources. Google Analytics measurements are generated by our placement of tags on our Web properties’ pages, which Google Analytics uses to count and report audience metrics independently. In this annual report, statistics gathered from Omniture and Google Analytics are also referred to as “internal estimates”.

We also follow and report certain measurements performed by comScore, Inc., a global leader in measuring the digital world and one of the preferred sources of digital marketing intelligence. comScore’s “unique visitors” data to which we subscribe, is based on a solution introduced by comScore in mid-2009, Media Metrix 360, a ‘panel-centric hybrid’ approach to digital audience measurement, currently referred to by comScore as a Unified Digital Measurement solution. comScore’s unified methodology combines person-level measurement from its proprietary global panel with Web site server metrics. Our focus on comScore’s unique visitors metric – in the U.S. and worldwide – helps us understand and analyze our progress vis-à-vis other Web properties and competitors. Direct comparison of a ranking post implementation of comScore’s Media Metrix 360 solution, versus a ranking preceding the implementation of this relatively new solution, may not reflect the actual change in a site’s ranking or audience size over time.

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

Table of Contents

ANSWERS CORPORATION

PART I

Item 1. Business

We were incorporated as a Texas corporation in December 1998 and reorganized as a Delaware corporation in April 1999. In October 2005, we changed our name from GuruNet Corporation to Answers Corporation. Our principal executive offices are located in New York, NY. In addition, we have an office in Jerusalem, Israel. We completed our initial public offering in October 2004 and our common stock is listed on The NASDAQ Capital Market under the symbol “ANSW.”

Available Information

We make available free of charge at www.answers.com (in the “Investor Relations” section) copies of materials we file with, or furnish to, the Securities and Exchange Commission, or SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC.

Mission

Our mission is to become the dominant and recognized market leader for answers online.

Answers.com is committed to bringing people the best possible answers covering all topics in thousands of categories by leveraging a growing community of contributors and an editorial library of authoritative content licensed from leading publishers.

We intend to build the best online:

- Answer experience
- Answer database
- Q&A community

Overview

Answers.com is a leading Q&A site catering to the growing need of online consumers to locate answers to their questions. By integrating our two popular properties - WikiAnswers and ReferenceAnswers –we have combined the power of community-driven content with hundreds of expert resources from licensed content. People can ask anything and automatically receive the best available answer, which could be user-generated or from an editorial resource. Our community-generated social knowledge Q&A platform, WikiAnswers, leverages wiki-based technologies; through the contributions of a large and growing community, answers can be edited and improved over time. The award-winning reference site ReferenceAnswers includes content on millions of topics from over 250 licensed sources created by leading publishers, including Houghton Mifflin Company, Barron's and Encyclopedia Britannica.

According to comScore data for the month of February 2011, Answers.com had 54.6 million unique visitors, which ranked us number 17 in the top U.S. Web properties. Worldwide, Answers.com had approximately 94.5 million monthly unique visitors, ranking us number 31 in the world's top properties in January 2011.

According to our internal estimates, during 2010, Answers.com yielded approximately 4.3 billion page views.

Our business runs on the ability to attract and monetize traffic to Answers.com. Monetization of Answers.com is achieved by displaying online advertisements, mostly pay-per-performance ads which require people viewing them to actually click on them in order for us to generate revenue. We earn substantially all of our revenue from online advertising.

We believe our valuable content and overall user experience drives traffic to Answers.com, which in turn drives advertising revenue.

Table of Contents

Company History

Prior to January 2005, we were primarily in the business of selling subscriptions for access to an answer-based product which benefited from intelligent aggregation of multiple sources of content.

In January 2005, we announced the release of the original version of Answers.com, a free-access Web site that had been launched in August 2004 in beta version. The answer-based service offered content from brand-name publishers licensed by us. In conjunction with the original Answers.com, we also released 1-Click Answers, our free downloadable software application that facilitates more efficient access for Windows users to the original Answers.com.

In November 2006, we acquired a questions and answers Web site, collaboratively written and edited by its community of users, which we later re-branded “WikiAnswers”. Our objective for WikiAnswers was twofold: First, we aimed to turn our platform into a dynamic, multi-disciplinary resource for users to share knowledge on similar areas of interest, thus adding a compelling facet to our overall offering. Second, we strived to leverage the potential of the network effect discussed in more detail below (the WikiAnswers Component) and strategically use WikiAnswers as a content creation source.

Over the course of 2007, 2008 and 2009, our focus on user-generated content grew considerably and became the primary driver of our business.

We began to integrate Answers.com and WikiAnswers towards the end of 2008. The product strategy guiding the integration was our desire to give users the best answers to all types of questions – be they community-generated from WikiAnswers, or editorially licensed from Answers.com, which we rebranded as ReferenceAnswers.

In September 2009 we announced the launch of the new Answers.com, in recognition of our completing the integration of our two Web properties. Thus, Answers.com is now our umbrella brand and is comprised of two properties or sub-brands, WikiAnswers and ReferenceAnswers.

Products & Services

The New Answers.com

We own and operate Answers.com, a leading Q&A site, dedicated to providing useful answers to questions about anything. Answers.com includes two Web properties, or components: WikiAnswers and ReferenceAnswers. WikiAnswers is a community-generated social knowledge Q&A platform, leveraging wiki-based technologies. Through the contributions of the community, our questions and answers are continuously growing, improving and being updated, to form the world’s best Q&A database. ReferenceAnswers provides trusted editorial content on millions of topics licensed from the world’s top reference publishers.

Integration of WikiAnswers and ReferenceAnswers

The first stages of the integration were minor - creating a similar “look and feel” for, and cross-linking between, the two Web properties. Thus, for example, a user looking up “Michael Jackson” in ReferenceAnswers, arrived at a page displaying reference content covering the specific query, in addition to being asked to answer WikiAnswers unanswered questions relating to Michael Jackson. The result page also resembled a WikiAnswers page by way of including the standard “Ask” and “Answer” bar in the header of the page, as opposed to the original “Search” button displayed adjacent to the query bar. Subsequently, we added an “All” radio button adjacent to the query bar on both properties, allowing users, should they choose, to find a result by searching both properties. In the second quarter of

2009, we took an important additional step in integrating both Web properties by making the “All” radio button the default setting above the query box of both properties. As a result of this user-interface change, users typing in queries into either of our properties are automatically directed to the Web page our algorithms deem most appropriate as a response. For example, a user typing the query, “When did WWII start?” in ReferenceAnswers, lands on a Web page belonging to WikiAnswers with an answer to that question. A user typing the query “Who is Oprah Winfrey?” in WikiAnswers, arrives at a ReferenceAnswers page displaying the Oprah Winfrey topic. In September 2009, we took our final step in integrating the two Web properties by creating a new unified Answers.com home page and login, integrating features from both properties, and making other changes in our user interface to strengthen our positioning as having one dominant product and brand, Answers.com, comprised of the two properties, WikiAnswers and ReferenceAnswers.

During 2010, Answers.com also began featuring many licensed videos. We believe that our users will value and be attracted to the videos covering thousands of topics in numerous categories.

The WikiAnswers Component

WikiAnswers is a user-generated content (UGC), community-based, Q&A platform where people ask questions and the community answers them. WikiAnswers is currently differentiated from other popular question and answer sites which facilitate a forum where users can ask and answer questions, often repeating the same question in many different ways, but cannot improve upon or edit the questions or answers. WikiAnswers’ approach allows the community to transform each question and answer into its own “wiki” page, a collaborative page that can be improved upon by others in the community. In this manner, good answers can potentially become better answers over time; related questions can be merged or physically associated with each other; and ultimately, the community user-experience is enhanced.

Content generation is the core of WikiAnswers. The dynamics of UGC make WikiAnswers highly scalable. We believe the size of the community helps drive the quantity of the content, content attracts additional users which in turn grows the community. We believe this cyclical pattern is the major source of growth for WikiAnswers. We have seen a very high correlation between growth in questions and answers and growth in page views. This is the self reinforcing, self sustaining growth engine driving WikiAnswers. We intend to focus on continuing this trend and enhance WikiAnswers to grow the overall community, which in turn should heavily contribute to the overall growth of Answers.com’s content and traffic.

The ReferenceAnswers Component

ReferenceAnswers, launched in January 2005 as the original Answers.com, aggregates millions of topics in categories including health and medical, legal, business and finance, science and technology, history, reference, translation and language from brand-name publishers and other sources. Our technology combines and presents targeted information from disparate sources and delivers answers to users’ questions in a single consolidated view.

Our ReferenceAnswers content includes over 250 licensed titles from leading offline and online publishers. The publishers from which we currently license content include, among many others, All Media Guide, Barron’s Educational Series, Encyclopedia Britannica, Houghton Mifflin Company, McGraw-Hill, Oxford University Press and Gale. We attribute the data source of information on each Web page, enabling our users to make an independent evaluation as to the credibility of the content.

Licensing agreements with our publishers are generally for fixed periods, mostly ranging from one year to four years, renewable by consent of the parties. A licensing agreement will typically entitle us to provide the licensed information to our end users through ReferenceAnswers in return for a fixed amount payable over the life of the agreement, either in a lump sum up front or payable over the course of a fixed schedule, either monthly, quarterly or annually. We also provide content we license at no cost, for example, from Wikipedia. We favor content that is difficult to find elsewhere on the Internet.

Access to ReferenceAnswers is also enabled through 1-Click Answers, a downloadable application which, when installed on a computer, enables a user to click on a word or phrase within virtually any program, such as an e-mail, spreadsheet, document or database, and gain access to ReferenceAnswers' online library. Since 2007, we began offering other Web properties and blogs the ability to provide their users with the 1-Click functionality through our webmaster tool version of 1-Click Answers, known as "AnswerTips", which does not require a download.

Mobile Access to Answers.com

In mid-2010, the Company introduced its newly-designed mobile version for iPhone, Android and other handheld devices. With mobile Web usage and apps becoming more prevalent, and Facebook's announcement in 2010 that it has surpassed 100 million monthly mobile users, connecting Answers.com with the ever-increasing proportion of users on the go has become an important strategic element. Mobile access constitutes an opportunity to expand Answers.com's user-base, data-base and brand recognition. The mobile site can be accessed by entering <http://m.answers.com> or www.answers.com into the mobile browser of any Web-enabled handheld device.

Table of Contents

Content Quality

Content quality plays a crucial role in our search engine rankings, as well as user experience. Particularly in light of the enormous amount of user-generated content offered on Answers.com via the WikiAnswers component, in the event the perceived quality of content on Answers.com pages does not improve and/or if it deteriorates, our pages may rank lower in the algorithmic systems of search engines. Lower ranking content could cause Answers.com's results to be less likely to be accessed by users, resulting in traffic declines. In an effort to recognize the opportunities and risks noted above, we are currently developing our Reputation Management System, or "RMS". The goal of RMS will be to measure and rate the trustworthiness of each contributor, each question and each answer. Using this data, RMS will serve as a quality watchdog, mitigating poor quality contributions and encouraging high quality contributors. We view RMS as potentially being a key factor in driving future traffic, growth and revenue, in addition to helping protect our search engine rankings.

Internationalization

In the third quarter of 2009 we launched French, Italian, German and Spanish language versions of WikiAnswers, which we refer to as "FIGS". The Q&A platform also supports Tagalog (Filipino). Our strategy will capitalize on the needs of users around the globe who are searching for answers online and will leverage our core strengths: community building and Q&A space. During the three consecutive quarters ending June 30, 2010, we created a database of approximately 300,000 questions and answers in FIGS languages by translating our English-language Q&A content, at a total cost of approximately \$470 thousand, in an effort to quickly grow those foreign-language versions of WikiAnswers. Beginning the third quarter of 2010, we have not translated any additional English-language Q&A into the FIGS languages. While the international market represents a large market opportunity for us, and we continue to employ personnel responsible for managing FIGS sites, we have currently suspended our translation efforts because of our desire to focus our resources on other initiatives.

Traffic Generation

Our revenues are primarily driven by the traffic generated by Answers.com and our ability to effectively monetize that traffic. Please refer to the Introductory Notes of this Annual Report for an explanation of the manner in which we measure traffic. The 2010 average daily page views and RPMs (revenue per thousand page views) of Answers.com, by quarter, broken down by component, are as follows:

	Q1	Q2	Q3	Q4
Traffic (page views)				
WikiAnswers	8,995,000	8,578,000	8,279,000	11,110,000
ReferenceAnswers	2,737,000	2,399,000	2,405,000	2,801,000
Total	11,732,000	10,977,000	10,684,000	13,911,000
WikiAnswers	77%	78%	77%	80%
ReferenceAnswers	23%	22%	23%	20%
Total	100%	100%	100%	100%
RPM (Revenue per thousand page views)				
WikiAnswers	\$5.55	\$5.11	\$4.35	\$4.63

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ReferenceAnswers	\$4.94	\$4.64	\$5.09	\$5.94
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Search engines. Answers.com's largest source of traffic is search engines, which represented approximately 90% of our traffic for the fourth quarter of 2010. Among search engines, Google is by far our largest provider of search engine traffic, providing approximately 85% of overall search engine traffic in the fourth quarter of 2010.

5

Table of Contents

We continually seek to improve the volume and optimize the monetization of traffic directed to our Web properties by search engines. The industry commonly refers to these efforts as search engine optimization, or SEO. One of our principal strategic initiatives is centered on our understanding that content drives traffic through SEO. We believe that rich, unique content is valued by the user and by the search engines and their content indexing algorithms. Thus, we have historically focused on adding unique content that has not been broadly offered on the Web. Currently, the Q&A-oriented content belonging to the WikiAnswers component is playing an overwhelming role in creating rich and unique information for Answers.com. Our additional SEO efforts involve optimizing Answers.com's coding, presentation and structure, such as incorporating a clear hierarchical site-structure, and structuring the site to facilitate search engine indexing.

Direct users. Answers.com also receives traffic from users visiting and returning to our sites directly. Direct users represented approximately 10% of our traffic for the fourth quarter of 2010.

Traffic Monetization

We earn practically all of our revenue from advertising. There are two primary categories of Internet advertising: pay-per-performance, also known as cost-per-click ("CPC"), and pay-per-impression display ads or cost per 1,000 impressions ("CPM"). In the CPC model, we earn revenue based on the number of clicks associated with an ad; in the CPM model, we derive revenue from the sole display of ads on pages that are visited by our audience. Beginning the fourth quarter of 2010, we added a third category of advertising to Answers.com, namely, in-text advertising, a form of contextual advertising where specific keywords within the text of a web-page are matched with advertising units. Those specific keywords become hyperlinks that populate an advertising "bubble" when users hover over the keywords using their cursor. We earn revenue each time a hyperlink within such "bubble" is clicked. 77%, 20% and 3% of our advertising revenue in 2010 was earned from CPC advertising, CPM advertising, and in-text advertising, respectively. We obtain advertisements from third-party ad networks. These ad networks compensate us by paying us a portion of the revenue they earn from advertisers for our provision of promotional space on Answers.com.

Our primary third party ad network, Google AdSense, provided Answers.com with almost all of the site's CPC ads and accounted for approximately 77% of our total advertising revenue in 2010.

Google AdSense. Google AdSense refers to the online program through which Google distributes advertisers' "AdWords" ads, for display on the web sites of its Google Network members. Answers.com is a member of such network. Google's AdSense program includes, amongst others, "AdSense for search" and "AdSense for content", bo