LOOKSMART, LTD.
APPENDIX 4D

PRELIMINARY FINAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2005

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	June 2005 $US'000	June 2004 $US'000	Change $'000	Change %
Revenue from ordinary activities	23,055	43,285	(20,230)	(47%)
Loss from ordinary activities after tax	(9,866)	(8,946)	(920)	(10%)
Net loss after tax	(9,756)	(8,362)	(1,394)	(17%)

Dividends:

The Company has not proposed to pay dividends in the foreseeable future.

Explanation of results:

Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Company's Form 10-Q for the Quarter Ended June 30, 2005, which has been filed with this announcement for explanation of results. This information should be read in conjunction with the Company's most recent annual report filed on Form 10-K for the Year Ended December 31, 2004.

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report:

	June 2005	June 2004
Net tangible assets (NTA) per ordinary share	$0.49	$0.58

All other information required by ASX listing rule 4.2A.3 are included in the attached Form 10-Q, which has been prepared in accordance with accounting principles generally accepted in the United States of America.

Review information:

The financial statements have been reviewed and a copy of the review report is attached.

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the Quarterly Period Ended June 30, 2005

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: 000-26357

LOOKSMART, LTD.
(Exact Name of Registrant as Specified in its Charter)

Delaware	13-3904355
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

625 Second Street
San Francisco, California 94107
(Address of Principal Executive Offices and Zip Code)

(415) 348-7000
(Registrant's Telephone Number, Including Area Code)

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 during the preceding 12months (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 [X] No [_]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [_]

As of August 1, 2005, there were 113,853,274 shares of the registrant's common stock outstanding.

FORM 10-Q
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LOOKSMART, LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

	June 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,602	$ 45,054
Short term investments	7,685	7,648
Trade accounts receivable, net of allowance for doubtful accounts of $302 at June 30, 2005 and $497 at December 31, 2004 and allowance for returns of $37 at June 30, 2005 and $965 at December 31, 2004	2,272	3,880
Prepaid expenses	575	1,042
Other current assets	884	1,174
Total current assets	55,018	58,798
Long term investments	9,822	11,198
Property and equipment, net	4,959	5,988
Security deposits and other assets	2,704	3,318
Intangible assets, net	6,148	7,364
Goodwill	14,422	14,422
Total assets	$ 93,073	$ 101,088
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	2,398	360
Accrued expenses and other current liabilities	6,831	8,032
Customer deposits	1,522	1,525
Total current liabilities	10,751	9,917
Other long term liabilities, net of current portion	5,948	5,071
Total liabilities	16,699	14,988
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; Authorized: 5,000 at June 30, 2005 and December 31, 2004; Issued and Outstanding: none at June 30, 2005 and December 31, 2004	—	—
Common stock, $.001 par value; Authorized: 200,000 at June 30, 2005 and December 31, 2004; Issued and Outstanding: 114,407 and 114,271 at June 30, 2005 and December 31, 2004, respectively	113	113
Additional paid-in capital	271,647	271,604
Other equity	382	395
Accumulated deficit	(195,768)	(186,012)
Total stockholders' equity	76,374	86,100
Total liabilities and stockholders' equity	$ 93,073	$ 101,088

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

LOOKSMART, LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	**2004**	**2005**	**2004**
Revenues	$ 10,225	$ 19,131	$ 22,226	$ 42,981
Cost of revenues	6,620	11,003	14,912	24,826
Gross profit	3,605	8,128	7,314	18,155
Operating expenses:				
Sales and marketing	1,714	1,794	3,349	4,549
Product development	4,332	5,991	9,097	13,282
General and administrative	1,539	2,252	3,721	5,363
Restructuring charges	1,879	420	1,904	4,054
Total operating expenses	9,464	10,457	18,071	27,248
Loss from operations	(5,859)	(2,329)	(10,757)	(9,093)
Non-operating income	426	52	904	147
Loss from continuing operations before income taxes	(5,433)	(2,277)	(9,853)	(8,946)
Income tax expense	(11)	—	(13)	—
Loss from continuing operations	(5,444)	(2,277)	(9,866)	(8,946)
Gain from discontinued operations, net of tax	28	1,040	110	584
Net loss	(5,416)	(1,237)	(9,756)	(8,362)
Other comprehensive loss:				
Change in unrealized gain (loss) on securities during the period	37	3	(40)	1
Change in translation adjustment	—	(310)	—	16
Comprehensive loss	$ (5,379)	$ (1,544)	$ (9,796)	$ (8,345)
Basic and diluted net loss per common share:				
Loss from continuing operations	$ (0.05)	$ (0.02)	$ (0.09)	$ (0.08)
Gain from discontinued operations, net of tax	0.00	0.01	0.00	0.01
Net loss	$ (0.05)	$ (0.01)	$ (0.09)	$ (0.08)
Weighted average shares outstanding used in per share calculation	113,784	111,235	113,761	109,716

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

LOOKSMART, LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Cash flows from operating activities:		
Net loss	$ (9,756)	$ (8,362)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,010	3,936
Stock based compensation (reversal)	(10)	61
Loss (gain) from sale of assets and other non-cash charges	209	(771)
Changes in operating assets and liabilities, net of effects of acquisitions and disposals:		
Trade accounts receivable, net	1,608	16,059
Prepaid expenses	467	1,137
Other assets	290	365
Trade accounts payable	2,038	(1,669)
Accrued expenses and other current liabilities	(301)	(14,030)
Customer deposits	(3)	(1,879)
Net cash used in operating activities	(1,448)	(5,153)
Cash flows from investing activities:		
Purchase of investments	(5,791)	(22,133)
Maturities of investments	1,881	—
Proceeds from sale of investments	5,000	82
Payments for property, equipment and capitalized software development	(1,150)	(1,800)
Proceeds from sale of discontinued operations	—	1,484
Acquisition of NetNanny	—	(877)
Net cash used in investing activities	(60)	(23,244)
Cash flows from financing activities:		
Repayment of notes	(25)	(50)
Proceeds from issuance of common stock	81	3,557
Net cash provided by financing activities	56	3,507
Effect of exchange rate changes on cash	—	(16)
Decrease in cash and cash equivalents	(1,452)	(24,906)
Cash and cash equivalents, beginning of period	45,054	63,866
Cash and cash equivalents, end of period	$ 43,602	$ 38,960
Supplemental disclosure of non-cash investing activities:		
Issuance of common stock as consideration in a business combination	$ —	$ 4,234

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

LOOKSMART, LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies:

Nature of Business and Principles of Consolidation

LookSmart is a provider of technology, content and tools for publishers, a provider of search results, via sites, for consumers, as well as a provider of marketing products for advertisers who want to be included in relevant search results on LookSmart sites or on our distribution partners' sites.

The unaudited condensed consolidated financial statements as of June 30, 2005 and for the three and six months ended June 30, 2005 include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

In the first quarter of 2004, the Company signed agreements to sell certain assets and activities of its Australian, British and Japanese subsidiaries. Accordingly, the condensed consolidated results of operations have been recast to remove the results of the international operations from continuing operations for all periods presented in these condensed consolidated financial statements. Results of the international operations are included in the separate line item Gain from discontinued operations, net of tax, for all periods presented in these condensed consolidated financial statements. The results of the discontinued operations are summarized in Note 9 to these financial statements.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements as of June 30, 2005 and for the three and six months ended June 30, 2005 reflect all adjustments which are normal and recurring in nature and, in the opinion of management, are necessary for a fair statement of the results of operations for the periods shown. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. The condensed consolidated balance sheet as of December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financials statements. The results of operations for the interim period ended June 30, 2005 are not necessarily indicative of results to be expected for the full year. These unaudited interim condensed consolidated financial statements should be read in conjunction with LookSmart's audited consolidated financial statements and notes for the year ended December 31, 2004 included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments, long-term investments and accounts receivable. As of June 30, 2005 and December 31, 2004, one financial institution managed all of the Company's cash, cash equivalents and investments. The fair values of these investments are subject to fluctuation based on market prices.

Accounts receivable are typically unsecured and are derived from revenue earned from customers. The Company performs ongoing credit evaluations of its customers and maintains allowances for probable credit losses. The Company applies judgment as to its ability to collect outstanding receivables based primarily on management's evaluation of the customer's financial condition and past collection history and records a specific allowance. In addition, the Company records a general allowance based on the length of time other receivables are past due. Historically, such losses have been within management's expectations. As of June 30, 2005, one customer accounted for 12% of the accounts receivable balance. No one customer accounted for 10 percent or more of the accounts receivable balance as of December 31, 2004.

Revenue Concentrations

The Company derived the following percentages of its revenue from its relationship with significant traffic providers:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Company 1	18%	18%	21%	14%
Company 2	13%	9%	15%	8%
Company 3	10%	0%	10%	0%
Company 4	3%	16%	3%	18%
Company 5	1%	9%	2%	22%

Use of Estimates and Assumptions

The condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues, expenses, and contingent assets and liabilities during the reporting period. The Company bases its estimates on various factors and information which may include, but not limited to, history and prior experience, experience of other enterprises in the same industry, new related events, current economic conditions and information from third party professionals that is believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Reclassifications

Certain prior years' balances have been reclassified to conform to the current year's presentation. The reclassifications had no material impact on net loss or equity.

Stock-Based Compensation

The Company accounts for stock-based employee compensation using the intrinsic method under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB No. 25) and related interpretations. Under APB No. 25, compensation cost is equal to 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. Statement of Financial Accounting Standards SFAS 123 ("SFAS 123"), "Accounting for Stock-based Compensation," established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans. As allowed by SFAS 123, the Company has elected to continue to apply the intrinsic value based method of accounting described above, and has adopted the disclosure requirements of SFAS 123 and related Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148").

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (in thousands, except per share data):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2004**	**2005**	**2004**
Net loss as reported	$ (5,416)	$ (1,237)	$ (9,756)	$ (8,362)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	(13)	11	10	61
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of tax	(496)	(1,379)	(1,065)	(3,504)
Pro forma net loss	$ (5,925)	$ (2,605)	$ (10,811)	$ (11,805)
Net loss per share:				
As reported	$ (0.05)	$ (0.01)	$ (0.09)	$ (0.08)
Pro forma	(0.05)	(0.02)	(0.10)	(0.11)

For purposes of computing pro forma net loss, the Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in the Company’s option grants. Additionally, option valuation models require the input of highly subjective assumptions, including the expected volatility of the stock price. Because the Company’s employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not provide a reliable single measure of the fair value of its stock-based awards.

Options vest over several years, and new option awards are generally granted each year. Because of this, the pro forma amounts shown above may not be representative of the pro forma effect on reported net loss in future years.

Segment Information

The Company operates in one primary business segment, listings. As of June 30, 2005 and December 31, 2004, all of the Company’s revenues included in continuing operations were generated in the United States of America. See Note 9 regarding foreign revenue reported as discontinued operations. All long-lived assets are located in the United States of America.

Recently Issued Accounting Pronouncements

In May 2005, the FASB issued FASB 154 (“FASB 154”), “Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3.” This Statement replaces APB Opinion No. 20, “Accounting Changes”, and FASB Statement No. 3, “Reporting Accounting Changes in Interim Financial Statements”, and changes the requirements for the accounting for and reporting of a change in accounting principle. FASB 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In December 2004, the Financial Accounting Standards Board (“FASB”) enacted Statement of Financial Accounting Standards No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation" - revised 2004, “Share-Based Payment” (“SFAS 123R”), which replaces SFAS 123 and supersedes APB Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees.” SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of operations. The Company is required to adopt SFAS 123R beginning January 1, 2006.

The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See Note 1 in the Notes to Consolidated Financial Statements for the pro forma net loss and net loss per share amounts, for the three and six months ended June 30, 2005 and June 30, 2004, as if we had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. The Company is evaluating the requirements under SFAS 123R including the fair value model and transition method to select and expects the adoption to have a significant adverse impact on the consolidated statements of operations and net loss per share.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 (“FAS 109-2”), “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004 (“AJCA”).” The Company does not expect a material impact on its consolidated results of operations due to the AJCA or implementation of FAS 109-2.

2. Acquisitions:

The transactions below were recorded using the purchase method of accounting and the operating results of these acquisitions have been included in the Company’s results of operations since the date the acquisitions took place. The purchase prices have been allocated to assets acquired and liabilities assumed based on their fair values on the acquisition dates.

Net Nanny

On April 22, 2004, the Company acquired the business and certain assets of Net Nanny, a division of Bionet Systems LLC, a privately held company, for $850,000 in cash, 1,972,387 shares of common stock, valued at $4.2 million and $27,000 of costs related to completing the transaction. Net Nanny is a desktop-based product, which provides online parental control and content filtering of search results.

The common stock issued was valued at $2.15 per share in accordance with EITF Issue No. 99-12, “Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination,” using the average of the closing prices of the Company’s common stock for the two days prior to and including April 22, 2004, which was prior to the announcement date of April 29, 2004.

Purchased technology and other intangible assets acquired are being amortized over their estimated useful lives of two to six years. The consolidated financial statements include the operating results of Net Nanny from the date of purchase. Pro forma results of operations have not been presented because the effect of this acquisition was not material to the results of prior periods presented.

The following table summarizes the purchase price allocation. These amounts were determined through established valuation techniques in the technology industry (in thousands):

Accounts receivable, net of reserves	$ 171
Inventory	34
Purchased technology	510
Goodwill	3,490
Other intangible assets	940
Total assets acquired	5,145
Less: current liability assumed	34
Net assets acquired	$ 5,111

Furl.net

During the third quarter of 2004, the Company acquired the assets of Furl.net, which consisted primarily of intangible assets related to technology, customer lists, trade name and employees. The asset acquisition did not have a significant impact on total assets of the Company.

3. Goodwill and Intangible Assets

The Company's intangible assets consist primarily of purchased technology and have estimated useful lives of three to seven years. Goodwill and intangible assets are as follows (in thousands):

	June 30, 2005	December 31, 2004
Goodwill	$ 14,422	$ 14,422
Intangible assets:		
Purchased technology	$ 9,951	$ 9,951
Less accumulated amortization	(5,466)	(4,614)
Net purchased technology	4,485	5,337
Trade names	1,470	1,470
Less accumulated amortization	(323)	(167)
Net trade names	1,147	1,303
Other intangibles	1,921	1,921
Less accumulated amortization	(1,405)	(1,197)
Net other intangibles	516	724
Intangible assets, net	$ 6,148	$ 7,364

Intangible asset amortization expense was $0.6 million and $1.2 million for the three and six months ended June 30, 2005, respectively, and $0.4 million and $0.8 million for the three and six months ended June 30, 2004, respectively, and is included in cost of revenue and product development costs.

Estimated future intangible amortization expense is as follows (in thousands):

Year	Estimated Remaining Amortization of Intangibles
Six months ending December 31,	
2005	$ 1,214
Fiscal year ending December 31,	
2006	1,825
2007	1,553
2008	1,183
2009	344
Thereafter	29

4. Accrued Expenses and Other Current Liabilities:

Accrued expenses and other current liabilities consisted of the following (in thousands):

	June 30, 2005	December 31, 2004
Accrued compensation and related expenses	$ 1,656	$ 1,426
Accrued distribution and partner costs	1,959	3,428
Current portion of restructuring liability	1,505	1,187
Other	1,711	1,991
	$ 6,831	$ 8,032

5. Commitments and Contingencies

Operating Leases

The Company leases office space under non-terminable operating leases that expire at various dates through 2009.

Future minimum payments under all operating leases, in total and net of minimum sublease income, at June 30, 2005 are as follows (in thousands):

	Operating Leases	Operating Leases, Net of Sublease Income
Year:		
2005 remaining amount	$ 2,294	$ 2,045
2006	4,616	4,547
2007	4,684	4,684
2008	4,751	4,751
2009	4,412	4,412
Total	$ 20,757	$ 20,439

The Company has outstanding Standby Letters of Credit ("SBLC") related to security of building leases and security for payroll processing of $2.0 million at June 30, 2005.

The above SBLC contain two financial covenants, the first requiring a minimum net worth of $20 million and the second requiring minimum liquid assets, as defined by the SBLC, of $40 million. At June 30, 2005, the Company was in compliance with both covenants.

Guarantees and Indemnities

During its normal course of business, the Company has made certain guarantees, indemnities and commitments under which it may be required to make payments in relation to certain transactions. These indemnities include intellectual property and other indemnities to the Company's customers and distribution partners in connection with the sales or distribution of its products, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. Historically, we have not incurred any losses or recorded any liabilities related to performance under these types of indemnities.

Legal Proceedings

In August 2004, Mario Cisneros and Michael Voight filed a private attorney general lawsuit on behalf of a proposed class in Superior Court in San Francisco County, California. The complaint names thirteen search engines or web publishers as defendants (including the Company) and alleges unfair business practices, unlawful business practices and other causes of action in connection with the display of advertisements from internet gambling companies. The complaint seeks restitution, unspecified compensatory damages, declaratory and injunctive relief, and attorneys' fees. Plaintiffs filed a motion for preliminary injunction and served discovery requests, and the Company has responded to the complaint and filed a motion to strike certain allegations, which the court denied in part and granted in part. The court also allowed certain discovery to proceed with respect to plaintiffs' motion for preliminary injunction. Recently the court ordered an October 2005 trial on an issue in the case. At this point in time, the Company does not have sufficient information to assess the validity of the complaint or the amount of potential damages.

In February 2005, Lane's Gifts and Collectibles, L.L.C. and U.S. Citizens for Fair Credit Card Terms, Inc., filed a lawsuit on behalf of a proposed nationwide class of similarly situated persons in Circuit Court in Miller County, Arkansas. Subsequently, plaintiffs filed first and second amended complaints adding additional plaintiffs. The Company was served with the second amended complaint in March 2005, which names eleven search engines or web publishers as defendants (including the Company) and alleges breach of contract, unjust enrichment, civil conspiracy and other causes of action in connection with the sale of clicks not generated by actual consumer click-throughs. The complaint seeks monetary damages, restitution, prejudgment interest, attorneys' fees and other remedies. The case was removed to United States District Court in Arkansas in March 2005. Plaintiffs subsequently filed a motion for remand, which was recently granted. In July 2005, defendants, including the Company, petitioned the Eighth Circuit Court of Appeals for an appeal of the remand order, and moved to stay the proceedings while the appeal is pending. At this point in time, the Company does not have sufficient information to assess the validity of the complaint or the amount of potential damages.

The Company is also involved, from time to time, in various legal proceedings arising from the normal course of business activities. Although the results of litigation and claims cannot be predicted with certainty, the Company does not expect resolution of these matters to have a material adverse impact on the Company's consolidated results of operations, cash flows or financial position. However, an unfavorable resolution of a matter could, depending on its amount and timing, materially affect the Company's future results of operations, cash flows or financial position in a future period. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense costs, diversion of management resources and other factors.

JV Funding

Pursuant to the settlement agreement with British Telecommunications ("BT") for the dissolution of the joint venture, LookSmart and BT are jointly liable for the costs incurred to shut down operations of the joint venture. The Company does not expect to incur significant additional expenses to shut down the joint venture.

6. 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 per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Numerator – basic and diluted:				
Net loss	$ (5,416)	$ (1,237)	$ (9,756)	$ (8,362)
Denominator				
Weighted average common shares outstanding:				
Shares used to compute basic and diluted EPS	113,784	111,235	113,761	109,716
Net loss per basic and diluted share	$ (0.05)	$ (0.01)	$ (0.09)	$ (0.08)

Options and warrants to purchase common stock are not included in the diluted loss per share calculations if their effect is antidilutive. The antidilutive securities include potential common stock relating to stock options and warrants as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Options	14,075	1,364	9,185	1,832
Warrants	79	45	59	50
Total antidilutive shares	14,154	1,409	9,244	1,882

7. Related Party Transactions:

In 2002, the Company loaned Dianne Dubois, the Company's former Chief Financial Officer, $0.3 million. The loan was interest-free and subject to forgiveness ratably over a period of four years, subject to certain performance measures being met. In addition, the Company had agreed to pay taxes due related to forgiveness of the loan and imputed interest.

The amount of imputed interest and tax adjustments charged to operations were $6,000 and $12,000, respectively, for the three and six months ended June 30, 2004. Due to the resignation of the Chief Financial Officer in 2003, the outstanding balance of $0.2 million was repaid in August 2004.

The Company has a related-party receivable from the BT LookSmart joint venture. In 2004, the Company recorded a valuation adjustment to the net receivable from the joint venture of $0.1 million based on revised estimates of net realizable value. The remaining investment balance at June 30, 2005 is $0.3 million, which reflects the estimated value upon final liquidation of the joint venture.

8. Restructuring Charges

Employee Severance Costs. In November 2003, the Company implemented a restructuring plan to eliminate 77 positions in the United States due to the loss of the ongoing relationship with Microsoft. In 2003, severance charges associated with the reduction in force were $0.8 million. In the first and second quarters of 2004, the Company eliminated an additional 43 positions in the United States, which included a reduction in the Company's sales force of 11 positions, a reduction in the Company's general and administrative departments of 5 positions, a reduction in the Company's product development department of 14 positions and a reduction in the Company's editorial team of 13 positions. This reduction resulted in $0.5 million, $0.4 million and $0.1 million restructuring charges recognized in the first, second and third quarters of 2004, respectively. These costs are classified as restructuring charges on the condensed consolidated Statement of Operations, and are included in Operating Expenses. All severance costs were paid by the Company as of December 31, 2004.

Lease restructuring costs. In connection with the restructuring activities noted above, the Company closed certain leased facilities and incurred lease restructuring costs related to closing these facilities of $3.2 million in the fourth quarter of 2003, and costs related to closing of further redundant leased facilities of $3.2 million in the first quarter of 2004. These costs are classified as restructuring charges on the condensed consolidated Statement of Operations, and are included in Operating Expenses.

As of December 31, 2004, the restructuring liability was $5.7 million. Of this amount, $1.3 million was included in other current portion of long-term liabilities and $4.4 million was included in other long-term liabilities on the condensed consolidated Balance Sheet.

The Company has had limited success in subleasing the unused space since the establishment of the restructuring reserve and has modified the original estimates in the second quarter of 2005. This resulted in additional restructuring charges of $1.9 million, reflecting the reduced probability of subleasing the available space.

As of June 30, 2005, the lease restructuring liability was $6.7 million. Of this amount, $1.5 million was included in other current portion of long-term liabilities and $5.2 million was included in other long-term liabilities on the condensed consolidated Balance Sheet.

The Company does not currently expect to incur significant further restructuring charges related to closing redundant leased facilities during the remainder of 2005. However, if available sublease rates change significantly from the assumptions used, the actual costs related to these facilities could exceed estimated accrued facility costs and may require further adjustment to the original estimates.

A reconciliation of the liability for the lease restructuring costs at December 31, 2004 to the liability for the three months ended June 30, 2005 is as follows (in thousands):

	Lease Restructuring Costs
Balance at December 31, 2004	$ 5,631
Reclassification of deferred rent	(184)
Amortization of lease restructuring costs	(657)
Adjustment	1,903
Balance at June 30, 2005	$ 6,693

9. Gain from Discontinued Operations

In January 2004, the Company agreed to sell certain assets of its Australian subsidiary and related intellectual property rights to a subsidiary of Telstra Corporation Limited for the sum of approximately $0.7 million. In March 2004, the Company agreed to sell certain the assets of its Japanese subsidiary and related intellectual property rights to Value Commerce for the sum of approximately $0.7 million. In March 2004, the Company agreed to sell certain assets of its United Kingdom subsidiary and related intellectual property rights to Crystal for the sum of approximately $0.1 million. The gain on disposal of these operations of $1.0 million, net of $0.4 million for transitional expenses, was recorded in the second quarter of 2004.

Revenue and pretax net income (loss) from the discontinued international operations (excluding gain on disposal), previously included in the listings segment of the business, reported in discontinued operations were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenue	$ —	$ 2,126	$ —	$ 6,036
Pretax net loss (excluding gain on disposal)	—	17	—	(439)
Tax benefit	—	—	67	—
Gain on disposal	28	1,023	43	1,023
Net gain from discontinued operations	$ 28	$ 1,040	$ 110	$ 584

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the condensed consolidated financial statements and the notes to those statements which appear elsewhere in this Quarterly Report on Form 10-Q.

The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as "believes," "intends," "expects," "anticipates," "plans," "may," "will" and similar expressions to identify forward-looking statements. 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" and in other sections of this report. These forward-looking statements include without limitation statements about our future operating results and financial performance, including mix of revenue streams, ability to control and/or reduce operating expenses and anticipated gross margins; our business and our business outlook, including the development and execution of new products, services, business initiatives and strategies and demand for our products and services; our plans to maintain and/or expand our network of distribution partners and our advertiser base; our new product plans, including our continued entry into, and performance in, the vertical search market; and our expectations regarding our ability to reduce low-converting traffic or detect "click fraud" in our network; anticipated levels of restructuring charges; the impact of legislative developments on the Company; general outlook of our business and industry; competitive position; stock compensation and adequate liquidity to fund our operations and meet our other cash requirements. All forward-looking statements are based on current expectations, estimates, beliefs, assumptions, goals and objectives, are subject to numerous known and unknown risks, uncertainties and other factors and are not guarantees of future performance or events. Actual results may differ materially from those anticipated in the forward-looking statements due to various risks, uncertainties and other factors such as, without limitation, our ability to maintain net profitability in future quarters, our ability to preserve our expertise in search product development, our ability to maintain, expand and diversify our network of distribution partners,. in the face of vigorous product-based and price-based competition for their business, our ability to integrate our acquired businesses and to harvest from them significant gains in proprietary traffic, our ability to maintain traffic volumes in light of changes in the composition of our distribution network, our ability to improve our match rate, average CPC or other advertiser metrics, and all other risks described below in the section entitled "Risk Factors Affecting Operating Results"and elsewhere in this report. All forward-looking statements reflect the current belief of the Company as of the date hereof, and we expressly disclaim any obligation to update any forward-looking statements.

BUSINESS OVERVIEW

LookSmart is a provider of technology, content and tools for publishers, search results for consumers, as well as a provider of marketing products for advertisers who want to be included in relevant search results on either LookSmart sites or on our distribution partners' sites.

We distribute our search results across a distribution network by partnering with Internet portals, ISP's, search engines and media companies and running on LookSmart-owned sites. These companies have increasingly recognized the valuable nature of search services for their web sites. We offer distribution partners a search solution with two important benefits. First, our search solution provides highly relevant search results for their users, which can help to maintain the users' satisfaction and increase repeat visits of those users. Second, we share with our distribution partners a portion of the listings revenues that we generate from clicks on paid listings in those search results.

CRITICAL ACCOUNTING POLICIES

The financial condition and results of operations of the Company are based upon certain critical accounting policies, which include estimates, assumptions, and judgments on the part of management. The Company bases its estimates on various factors and information which may include, but not limited to, history and prior experience, experience of other enterprises in the same industry, new related events, current economic conditions and information from third party professionals that is believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. The following discussion highlights those policies and the underlying estimates and assumptions, which management considers critical to an understanding of the financial information in this report.

Revenue Recognition. Revenues associated with listings products, including LookListings and affiliate commissions, are generally recognized once collectibility is established, delivery of services has occurred, all performance obligations have been satisfied, and no refund obligations exist.

Listings revenue generated from our LookListings platform is primarily composed of per-click fees that we charge customers. The per-click fee charged for inclusion-targeted listings is set with a customer when the account is established. The per-click fee charged for keyword targeted listings is calculated based on the results of online bidding on keywords, up to a maximum cost per keyword set by the customer.

The Company provides a reserve against revenue for estimated credits resulting from sales adjustments and returns in the event of product returns. The amount of this reserve is evaluated quarterly based upon historical trends.

Allowance for Doubtful Accounts. Determination of collectibility of payments requires significant judgment on the part of management and includes performing initial and ongoing credit evaluations of customers. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the failure of our customers to make required payments. This valuation allowance is reviewed periodically based on factors including the application of historical collection rates to current receivables. The Company will record a reduction of its general allowance for doubtful accounts if there is a significant improvement in collection rates or economic conditions are more favorable than the Company has anticipated. Additional allowances for doubtful accounts may be required if there is deterioration in past due balances, if economic conditions are less favorable than the Company has anticipated or for customer-specific circumstances, such as bankruptcy. Management's judgment is required in the periodic review of whether a provision or reversal is warranted.

Valuation of Goodwill and Intangible Assets. We have recorded goodwill and intangible assets in connection with our business acquisitions. Management exercises judgment in the assessment of the related useful lives, fair value and recoverability of these assets. The majority of intangible assets are amortized over three to seven years, the period of expected benefit. Goodwill is not amortized. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company periodically reassesses the valuation and asset lives of intangible assets to conform to changes in management's estimates of future performance. Management considers existing and anticipated competitive and economic conditions in such assessments. Goodwill is reviewed for impairment at least annually and as a result of any event which significantly changes the Company's business. Cash flow forecasts used in evaluation of goodwill are based on trends of historical performance and management's estimate of future performance.

Deferred Taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying values and the tax bases of assets and liabilities. LookSmart regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets which could substantially increase our effective tax rate for such period. Alternatively, if our future taxable income is significantly higher than expected and/or we are able to utilize our tax credits, we may be required to reverse all or a significant part of our valuation allowance against such deferred tax assets which could substantially reduce our effective tax rate for such period. Therefore, any significant changes in statutory tax rates or the amount of our valuation allowance could have a material impact on the value of our deferred tax assets and liabilities, and our reported financial results.

Internal Use Software Development Costs. The Company accounts for internal use software in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). In accordance with the capitalization criteria of SOP 98-1, the Company has capitalized the payroll and payroll-related costs of employees who devote time to the development of internal-use computer software.

Management's judgment is required in determining the point at which various projects enter the stages at which costs may be capitalized, in assessing the ongoing value of the capitalized costs, and in determining the estimated useful lives over which the costs are amortized.

Restructuring Charges

We have recorded a restructuring reserve related to closing certain leased facilities in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal of Activities". Management's judgment is required in estimating when the redundant facilities will be subleased and at what rate they will be subleased.

RESULTS OF OPERATIONS

Overview of the Three and Six Months Ended June 30, 2005

During the second quarter of 2005, we continued to focus on three primary operating priorities:

- ***Improving our traffic conversion standards.*** We continued excising traffic sources from our distribution network that do not conform to quality standards of our advertisers. In addition, we introduced run-of-site products offering unused advertisement space at a discounted rate per click. As a result, our match rate, or the rate at which paid listings are matched against search queries, grew by 7%, excluding our run-of-site products, from first quarter of 2005 to second quarter of 2005. The match rate is a key driver for our business because a higher match rate means a greater number of paid listings are competing for position in the sponsored links section of search results pages. We expect to continue major traffic optimization efforts in the third quarter of 2005.

- ***Developing syndicated solutions for publishers.*** We continued focusing on what our partners need. During the second quarter, we launched our LookSmart SearchWISE solution for publishers designed to improve the user's search experience and increase usage and visits. We also rolled out LookSmart AdWISE allowing publishers to own the advertiser relationships and maximize yield. These offerings include a white-labeled advertising management center, search of a publisher's own archived content, and a tailored version of our Furl online book marking system for publishers. As a result of these efforts, we signed technology-licensing agreements with a major publisher and a major media company. Implementation of these projects is expected to begin in the third quarter of 2005.

- ***Focusing on our vertical search business.*** We redefined our approach strategically focusing on our vertical search business. We are leveraging our core expertise in directories, database structures, algorithmic searches and communities by integrating Furl and other LookSmart technologies to provide a compelling environment for both customers and advertisers. We expect to launch numerous vertical search sites in addition to ten sites launched in the first half of 2005.

Revenues

(000's)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	% Change 2004 to 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	% Change 2004 to 2005
Revenues	$ 10,225	$ 19,131	(47) %	$ 22,226	$ 42,981	(48) %

Revenues in the three and six months ended June 30, 2005 decreased compared to the three and six months ended June 30, 2004 primarily due to a proactively managed reduction of our distribution network, a decline in the number of customers and the winding down of our relationship with Microsoft, which winding down began in January of 2004. We derived 2% and 22% of our revenues in the first half of 2005 and the first half of 2004, respectively, from our relationship with Microsoft.

Total paid clicks were 80 million and 164 million in the three and six months ended June 30, 2005, respectively, compared to 119 million and 264 million in the three and six months ended June 30, 2004, respectively. Average revenue per click, excluding discounted, run-of-site products, decreased to $0.15 per click and $0.14 per click in the three and six months ended June 30, 2005, respectively, compared to $0.16 in the three and six months ended June 30, 2004. This decline was primarily the result of a reduction in our match rate in certain segments of search due to the decline in the number of advertisers and distribution partners.

We began recording revenue from the sale of advertising on our vertical search products in the second quarter of 2004. This revenue was less than 10% of total revenue in the three and six months ended June 30, 2005.

Revenue is expected to decline in the third quarter of 2005 compared to the second quarter of 2005 as we continue optimizing our distribution network and reducing the number of partners.

Cost of Revenues

000's)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	% Change 2004 to 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	% Change 2004 to 2005
Traffic acquisition costs	$ 5,224	$ 9,699	(46) %	$ 11,888	$ 22,115	(46) %
Percentage of revenues	51 %	51 %		53 %	51 %	
Other costs	1,396	1,304	7 %	3,024	2,711	12 %
Total cost of revenues	$ 6,620	$ 11,003	(40) %	$ 14,912	$ 24,826	(40) %
Percentage of revenues	65 %	58 %		67 %	58 %	

Traffic acquisition costs, the costs paid to our distribution partners, decreased during the three and six months ended June 30, 2005 compared to the three and six months ended June 30, 2004 primarily due to the decline in revenue. The slight increase in traffic acquisition costs as a percent of revenue in first half of 2005 compared to the first half of 2004 reflects our continued efforts to improve our traffic quality and optimize traffic flow from our partners. These efforts included the removal of low-converting traffic from our distribution network in the first half of 2005.

We expect traffic acquisition costs as a percent of listings revenue to increase to 56-59% in the third quarter of 2005 due to continuous traffic optimization efforts.

Other costs of revenue consist of connectivity costs, personnel costs of our sales operations employees, including stock-based compensation, equipment depreciation, expenses relating to hosting advertising operations, commissions paid to advertising agencies and amortization of intangible assets. These costs increased during the three and six months ended June 30, 2005 compared to the three and six months ended June 30, 2004 due to additional line rental charges and cost of consumer product traffic.

Operating Expenses

We are in the process of evaluating the option expensing requirements of SFAS 123R and expect the adoption to significantly increase operating expenses in 2006.

Sales and Marketing. Sales and marketing expenses include salaries, commissions, stock-based compensation and other costs of employment for the Company's sales force, sales administration and customer service staff, overhead, facilities, allocation of depreciation and the provision for doubtful trade receivables. Sales and marketing expenses also include the costs of advertising, trade shows and public relations activities.

Sales and marketing expenses were as follows (dollar figures are in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Stock compensation related to variable options	—	(8)	(17)	(2)
Other sales and marketing expenses	1,714	1,802	3,366	4,551
Sales and marketing	$ 1,714	$ 1,794	$ 3,349	$ 4,549
Percentage of total revenues	17 %	9 %	15 %	11 %

Stock compensation related to variable options is the result of repriced stock options. Stock compensation related to variable options is based on the Company's stock price at the end of each quarter and will continue to fluctuate as the Company's stock price fluctuates.

Other sales and marketing expenses decreased primarily due to a reduction in salaries and benefits by of $0.2 million in the three months ended June 30, 2005 compared to the three months ended June 30, 2004 and $1.3 million in the six months ended June 30, 2005 compared to the six months ended June 30, 2004. The decrease in salaries and benefits reflects a 30% reduction in headcount as a result of the Company's restructuring activities in 2004 and lower revenue base in 2005.

Product Development. Product development costs include all costs related to the development and engineering of new products and continued development of our search databases and additional features for our customer account management platform. These costs include salaries and associated costs of employment, including stock-based compensation, overhead, facilities and amortization of intangible assets. Costs related to the development of software for internal use in the business, including salaries and associated costs of employment are capitalized after certain milestones have been achieved. Software licensing and computer equipment depreciation related to supporting product development functions are also included in product development expenses. Product development expenses were as follows (dollar figures are in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Amortization of deferred stock compensation	13	20	27	43
Stock compensation related to variable options	—	(7)	(38)	13
Capitalized software development costs	(181)	506	(307)	158
Other product development expenses	4,500	5,472	9,415	13,068
Total product development expenses	$ 4,332	$ 5,991	$ 9,097	$ 13,282
Percentage of revenues	42 %	31 %	41 %	31 %

Amortization of deferred stock compensation relates to stock granted to employees at less than market value. Stock compensation related to variable options is the result of repriced stock options. Stock compensation related to variable options is based on the Company's stock price at the end of each quarter and will continue to fluctuate as the Company's stock price fluctuates.

Capitalized software development costs include the costs to develop software for internal use, excluding costs associated with research and development, training and testing. The decrease in the amount capitalized for the three months ended June 30, 2005 compared to the three months ended June 30, 2004 was primarily related to a write off in the second quarter of $0.8 million in software previously capitalized for projects that were cancelled in the second quarter of 2004 as they related to projects that were not aligned with our 2004 operating plan. The decrease in other product development expenses in the second quarter of 2005 compared to the second quarter of 2004 was due primarily to a reduction in salaries and benefits of $0.5 million and facilities costs of $0.3 million due to the restructuring activities in early 2004 and overall cost reductions efforts.

The decrease in other product development expenses in the six months ended June 30, 2005 compared to the six months ended June 30, 2004 was primarily due to a reduction in salaries and benefits of $2.8 million due to the restructuring activities and a headcount reduction of approximately 17%. We expect product development expenses to increase slightly during the remainder of 2005.

General and Administrative. General and administrative expenses include costs of executive management, human resources, finance, legal and facilities personnel. These costs include salaries and associated costs of employment, including stock-based compensation, overhead, facilities and allocation of depreciation. General and administrative expenses also include legal, tax and accounting, consulting and professional service fees.

General and administrative expenses were as follows (dollar figures are in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Stock compensation related to variable options	—	—	13	—
Other general and administrative expenses	1,539	2,252	3,708	5,363
Total general and administrative expenses	$ 1,539	$ 2,252	$ 3,721	$ 5,363
Percentage of total revenues	15 %	12 %	17 %	12 %

Stock compensation related to variable options is the result of repriced stock options. Stock compensation related to variable options is based on the Company's stock price at the end of each quarter and will continue to fluctuate as the Company's stock price fluctuates.

Other general and administrative expense decreased in the three months ended June 30, 2005 compared to the three months ended June 30, 2004 primarily due to a decrease in professional services of $0.3 million and a decrease of insurance costs of $0.3 million. The decrease in expenses in the six months ended June 30, 2005 compared to June 30, 2004 was due to a decrease in salaries and benefits of $0.6 million reflecting a 38% reduction in headcount and a decrease in international costs of $0.9 million. We expect other general and administrative expenses to increase during the remainder of 2005 compared to the first half of 2005 as we anticipate an increase in professional fees in the second half of 2005 compared to the first half of 2005 related to compliance with the Sarbanes-Oxley Act.

Restructuring Costs

Employee Severance Costs. In November 2003, we implemented a restructuring plan to eliminate 77 positions in the United States due to the loss of the ongoing relationship with Microsoft. In 2003, severance charges associated with the reduction in force were $0.8 million. In the first and the second quarters of 2004, we eliminated an additional 43 positions in the United States, which included a reduction in the Company's sales force of 11 positions, a reduction in our general and administrative departments of 5 positions, a reduction in our product development department of 14 positions and a reduction in our editorial team of 13 positions. This reduction resulted in $0.5 million, $0.4 million and $0.1 million restructuring charges recognized in the first, second and third quarters of 2004, respectively. These costs are classified as restructuring charges on the condensed consolidated Statement of Operations, and are included in Operating Expenses. All severance costs were paid by the December 31, 2004.

Lease restructuring costs. In connection with the restructuring activities noted above, we closed certain leased facilities and incurred lease restructuring costs related to closing these facilities of $3.2 million in the fourth quarter of 2003, and costs related to closing of further redundant leased facilities of $3.2 million in the first quarter of 2004.

We have had limited success in subleasing the unused space since the establishment of the restructuring reserve and accordingly modified the original estimates related to subleases in the second quarter of 2005. This resulted in additional restructuring charges of $1.9 million, reflecting the reduced probability of subleasing the available space.

We do not currently expect to incur significant further restructuring charges related to closing redundant leased facilities during the remainder of 2005. However, if available sublease rates change significantly from the assumptions used, the actual costs related to these facilities could exceed estimated accrued facility costs and may require further adjustment to the original estimates.

Non-Operating Income

Interest and Other Non-Operating income, net. Interest and other non-operating income increased by $0.8 million in the six months ended June 30, 2005 compared to the six months ended June 30, 2004. This was due to an increase in interest income on cash, cash equivalents and investments as a result of higher overall interest rates earned by our investment portfolio. Interest and other non-operating income increased by $0.4 million in the three months ended June 30, 2005 compared to the three months ended June 30, 2004 due to the same factor.

Income Tax Expense

The Company did not incur any significant income tax expense in the three and six months ended June 30, 2005 and 2004 due to net loss incurred in these periods.

The effective tax rate in the upcoming quarters and for the year ending December 31, 2005 may vary due to a variety of factors, including but not limited to the relative income contribution by tax jurisdiction, changes in statutory tax rates, the amount of tax exempt interest income generated during the year and any non-deductible items related to acquisitions or other non-recurring charges.

Gain from Discontinued Operations

In January 2004, we agreed to sell certain assets of our Australian subsidiary and related intellectual property rights to a subsidiary of Telstra Corporation Limited for the sum of approximately $0.7 million. In March 2004, we agreed to sell certain assets of our Japanese subsidiary and related intellectual property rights to Value Commerce for the sum of approximately $0.7 million. In March 2004, we agreed to sell certain assets of our United Kingdom subsidiary and related intellectual property rights to Crystal for the sum of approximately $0.1 million. The gain on disposal of the operations of $1.0 million, net of $0.4 million for transitional expenses, was recorded in the second quarter of 2004.

Revenue and pretax net income (loss) from the discontinued international operations (excluding gain on disposal), previously included in the listings segment of the business, reported in discontinued operations were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Revenue	$ —	$ 2,126	$ —	$ 6,036
Pretax net loss (excluding gain on disposal)	—	17	—	(439)
Tax benefit	—	—	67	—
Gain on disposal	28	1,023	43	1,023
Net gain from discontinued operations	$ 28	$ 1,040	$ 110	$ 584

As we finalize the liquidation process in our Australian subsidiary, we expect to record additional income related to the reversal of the cumulative translation adjustment of $0.5 million in 2005.

Liquidity and Capital Resources

Our primary source of cash is receipts from revenue. Another source of cash is proceeds from the exercise of employee stock options. The primary uses of cash are payroll (salaries, bonuses and benefits), general operating expenses (office rent), payments to distribution partners related to cost of revenue and professional services related to audit costs. We ended the second quarter of 2005 with $61.1 million in cash, cash equivalents, short-term investments and long-term investments, a decrease from $63.9 million at December 31, 2004. Our short-term and long-term investments decreased by $1.3 million from December 31, 2004 to June 30, 2005.

(000's)	Six Months Ended June 30,	
	2005	**2004**
Cash flows used in operating activities	(1,448)	(5,153)
Cash flows used in investing activities	(60)	(23,244)
Cash flows provided by financing activities	56	3,507

The termination and winding down of the Company's distribution and licensing relationship with Microsoft significantly reduced the Company's revenue and cash from operating activities in the six months ended June 30, 2005 compared to the six months ended June 30, 2004. In order to minimize the impact of the termination of the Microsoft agreement on the Company's liquidity, the Company implemented a restructuring plan.

The decrease in cash used in operating activities in the first half of 2005 compared to the first half of 2004 was primarily due to an increase in accounts payable of $2.0 million due to timing difference of payment cycles and a decrease in accounts receivable of $1.6 million due to a reduction of revenue.

Collections of accounts receivable can impact our operating cash flows. Management places significant emphasis on collection efforts and has assessed the allowance for doubtful accounts as of June 30, 2005 and has deemed it to be adequate.

Net cash used in investing activities in the first half of 2005 and the first half of 2004 included purchases of investments of $5.8 million and $22.1 million, respectively, and purchases of equipment and capitalization of costs related to internally developed software of $1.2 million and $1.8 million, respectively. Cash used in investing activities in the first half of 2004 also included the purchase of NetNanny, which used $0.9 million in cash in the first half of 2004 and was offset by proceeds from the sale of discontinued operations of $1.5 million. Cash provided by investing activities in the first half of 2005 included proceeds from sale of investments of $5.0 million and maturities of investments of $1.9 million.

In the six months ended June 30, 2005 and 2004, net cash provided by financing activities was primarily due to proceeds from the exercise of employee stock options of $0.1 and $3.6 million, respectively.

We believe that our working capital will provide adequate liquidity to fund our operations and meet other cash requirements for at least the next 12 months. We may seek to raise additional capital through public or private debt or equity financings in order to fund our operations and capital expenditures, take advantage of favorable business opportunities, develop and upgrade our technology infrastructure, develop new product and service offerings, take advantage of favorable conditions in capital markets or respond to competitive pressures. In addition, unanticipated developments in the short term, such as the entry into agreements requiring large cash payments or the acquisition of businesses with negative cash flows, may necessitate additional financing. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If we issue additional equity or convertible debt securities, our existing stockholders may experience substantial dilution.

Off-Balance Sheet Arrangements

We do not have any off balance-sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

Contractual Obligations and Commercial Commitments

In comparison with what we disclosed in our Annual Report on Form 10-K for fiscal 2004, we believe that there have been no significant changes in contractual obligations or commercial commitments.

Operating Lease Obligations—Our operating lease obligations relate primarily to our San Francisco headquarters.

Capital Lease Obligations—We have no material capital lease obligations.

Note Obligation —We have a note agreement to finance tenant improvements that bears interest at 9% per annum.

Purchase Obligations – Our purchase obligations consist of commitments for both merchandise and services.

Guarantees Under Letters of Credit — We have obtained standby letters of credit from time to time as security for certain liabilities. At June 30, 2005, we had outstanding letters of credit related to security of building leases and security for payroll processing of $2.0 million.

Indemnifications

In the normal course of business, we provide indemnifications of varying scope to customers and distribution partners against claims of intellectual property infringement or other claims made by third parties arising from the use of our products. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

As permitted under Delaware law, we have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving, at our request, in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We believe the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal. Historically, we have not incurred significant costs related to performance under these types of indemnities.

Recently Issued Accounting Pronouncements

See Note 1 in the Notes to Condensed Consolidated Financial Statements.

RISK FACTORS AFFECTING OPERATING RESULTS

You should carefully consider the risks described below before making an investment decision regarding our common stock. If any of the following risks actually occurs, our business, financial condition and results of operations could be harmed. In that case, the trading price of our common stock could decline and you could lose all or part of your investment. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

Our financial results are highly concentrated in the listings business; if we are unable to grow listings revenues and find alternative sources of revenue, our financial results will suffer

Listings accounted for more than 90% of our revenues in the six months ended June 30, 2005 and will likely account for substantially all of our revenues in 2005. Our success will depend upon the extent to which advertisers choose to use and partners choose to distribute our listings products. Advertisers and partners may not adopt our listings products at projected rates, or changes in market conditions may affect the adoption of our listings products. Because of our revenue concentration in the listings business, such shortfalls or changes could have a negative impact on our financial results. If we are unable to generate significant additional revenues from our listings business or significantly reduce our operating costs, our results of operations, financial condition and/or liquidity will suffer.

We rely primarily on our network of distribution partners to generate paid clicks; if we are unable to maintain or expand this network, our ability to generate revenues will be seriously harmed

In the first half of 2005, substantially all of our revenues came from search traffic on our distribution network. We may be unable to maintain key partners in our distribution network. Our distribution network is concentrated, with our five largest network partners accounting for approximately 49% and 56% of our revenues in the three and six months ended June 30, 2005, respectively. If we lose any significant portion of our distribution network, we would need to find alternative sources of high quality click traffic to replace the lost paid clicks. Although alternate sources of click traffic are currently available in the market, it may not be available at reasonable prices, it will likely be subject to competition from various paid search providers, and it may be of lower quality. The search market is consolidating and there is fierce competition among search providers to sign agreements with traffic providers. We face the risk that we might be unable to negotiate and sign agreements with high quality traffic providers on favorable terms, if at all. If we are unsuccessful in maintaining and expanding our distribution network, then our ability to generate revenues would be seriously harmed.

We may be unable to achieve operating profitability in the foreseeable future, and if we achieve operating profitability, we may be unable to maintain it, which could result in a decline in our stock price

We had a net loss of $9.8 million in the six months ended June 30, 2005 and as of June 30, 2005 our accumulated deficit was $196 million. We may be unable to achieve operating profitability in the foreseeable future and, if we regain operating profitability, we may be unable to maintain it. Our ability to achieve and maintain operating profitability will depend on our ability to generate additional revenues and contain our expenses. In order to generate additional revenues, we will need to expand our network of distribution partners, expand our proprietary traffic sources, and expand our advertiser base. We may be unable to do so because of the risks identified in this report or for unforeseen reasons. Also, we may be unable to contain our costs due to the need to make revenue sharing payments to our distribution partners, to invest in product development, marketing and search technologies (exemplified by our renewed focus on our vertical search business), and enhance our search services. Because of the foregoing factors, and others outlined in this report, we may be unable to achieve operating profitability in the future, which could result in a decline in our stock price.

If we experience downward pressure on our revenue per click and/or match rate, or we are unable to rebuild our revenue per click and/or match rate, our financial results will suffer

We have experienced, and may in the future experience, downward pressure on our average revenue per click and average match rate, or rate at which paid listings are matched against search queries, due to various factors. In the first half of 2005, for example, our average revenue per click and average match rate decreased compared to the first half of 2004. We may experience decreases in revenue per click or average match rate in the future for many reasons, including the erosion of our advertiser base, the reduction in average advertiser spend, the reduction in the number of listings purchased by advertisers, or for other reasons. If our revenue per click or average match rate fall for any reason, or if we are unable to grow our revenue per click and average match rate, then we may be unable to achieve our financial projections and our stock price would likely suffer.

Our growth depends on our ability to retain and grow our advertiser base; if our advertiser base and average advertiser spend continues to fall, our financial results will suffer

Our growth depends on our ability to build an advertiser base that corresponds with the characteristics of our distribution network. Our distribution network, which currently consists of a diversified network of small distribution sources, may change as new distribution sources are added and old distribution sources are removed. Advertisers may view these changes to the distribution network negatively, and existing or potential advertisers may elect to purchase fewer or no LookListings. If this occurs, it is likely that our average revenue per click and average match rate may decline, we may be unable to meet our financial guidance, and our stock price would likely suffer.

If we fail to prevent, detect and remove fraudulent clicks, we could lose the confidence of our advertisers, thereby causing our business to suffer

Click fraud is an ongoing problem for the Internet advertising industry, and we are exposed to the risk of fraudulent clicks on our paid listings. Click fraud occurs when a person or robotic software clicks on a paid listing for some reason other than to view the underlying content. We invest significant time and resources in preventing, detecting and eliminating suspicious traffic from our distribution network. However, the perpetrators of click fraud have developed sophisticated methods to evade detection, and we are unlikely to detect and remove all fraudulent clicks from our search network. We are subject to advertiser complaints and litigation regarding click fraud, and advertisers may continue to lodge complaints due to the perception that click fraud has occurred. We have from time to time credited invoices or refunded revenue to our customers due to suspicious traffic, and we expect to continue to do so in the future. If our fraud detection systems are insufficient, or if we find new evidence of past fraudulent clicks, we may have to issue credits or refunds retroactively to our advertisers, yet we may still have to pay revenue share to our network partners. This would negatively affect our profitability and hurt our brand. If fraudulent clicks are not detected and removed from our search network, the affected advertisers may experience a reduced return on their investment in our listings because the fraudulent clicks will not lead to actual sales for the advertisers. This could lead the advertisers to become dissatisfied with our listings, which could lead to loss of advertisers and revenue and could materially and adversely affect our financial results.

Our vertical search sites and syndicated publisher solutions may not be successful or gain customer and user acceptance, and there are risks associated with introducing new products and services.

To maintain and grow our revenue, part of our strategy is to introduce syndicated solutions for publishers and vertical search sites. Our development, testing and implementation efforts for these products and services have required, and are expected to continue to require, substantial investments of our time. We may not gain enough of an audience for our vertical search sites to generate any, or sufficient, revenue to justify our efforts, or we may gain a sufficient audience but be unable to gain advertiser acceptance of our vertical search sites. We may be unable to successfully implement syndicated publisher solutions, or our implementation of a solution may interfere with our ability to operate our other products and services or other implementations. [any capacity variables?] If we are unable to develop or introduce new and enhanced vertical search sites in a timely manner, we may lose existing customers to our competitors and fail to attract new customers, which may adversely affect our performance and results of operations.

If we do not introduce new products and services and successfully adapt to our rapidly changing industry, our financial condition may suffer

The Internet search industry is rapidly evolving and very turbulent, and we will need to continue developing new products and services (such as the ability to serve advertisements contextually), adapt to new business environments and competition, and generate traffic to our consumer web properties in order to maintain and grow revenue and reach our profitability goals. New search and advertising technologies could emerge that make our services comparatively less useful or new business methods could otherwise emerge that divert Web traffic away from our search network and consumer web properties. Competition from other web businesses may prevent us from attracting substantial traffic to our services. Also, we may inaccurately predict the direction of search technologies or the advertising market, which could lead us to make investments in technologies and products that do not generate sufficient returns. We may fail to successfully identify new products or services, or fail to bring new products or services to market in a timely and efficient manner. Rapid industry change makes it difficult for us to forecast our results accurately, particularly over longer periods, and might cause our profitability to decline significantly. We face the risk that we may be unable to adapt to new developments in the search industry, or that our new consumer products and services may not be broadly adopted by customers, in which case we would eventually need to obtain additional financing or cease operations.

Our securities may be delisted

The Nasdaq National Market requires us to satisfy certain continued listing requirements, including maintaining a minimum closing bid price for our common stock of at least $1.00 per share. On April 15, 2005 Nasdaq sent us a letter stating that for the prior thirty trading days, our stock price had closed below $1.00. We have until October 12, 2005 to regain compliance with the Nasdaq listing requirements by having our stock price close at or above $1.00 for a minimum of ten consecutive business days, or such longer period of time as required by Nasdaq. If we are unable to regain compliance and are ineligible for an extension of time to retain compliance, our securities will be delisted from the Nasdaq National Market. We may be ineligible at that point in time for an extension of time to regain compliance or to shift our listing to the Nasdaq Small Cap Market. If delisting occurs, our securities will not enjoy the same liquidity as shares that are traded on the Nasdaq National Market or a national U.S. securities exchange and investors may find that it is more difficult to obtain accurate and timely quotations. As a result, the price of our securities would likely decline. If we fail to meet Australian Stock Exchange listing requirements, we may be delisted from that exchange as well.

Any failure in the performance of our key operating systems could materially and adversely affect our revenues

Any system failure that interrupts our hosted products or services, including our search service, whether caused by computer viruses, software failure, power interruptions, unauthorized intruders and hackers, or other causes, could harm our financial results. For example, our system for tracking and invoicing clicks is dependent upon a proprietary software platform. If we lose key personnel or experience a failure of software, this system may fail. In such event, we may be unable to track paid clicks and invoice our customers, which would materially and adversely affect our financial results and business reputation.

Our success depends on our ability to attract and retain key personnel; if we were unable to continue to attract and retain key personnel in the future, our business could be materially and adversely impacted

Our success depends on our ability to identify, attract, retain and motivate highly skilled software development, technical, sales, and management personnel. The loss of the services of any of our key employees, particularly any of our executive team members or key technical personnel, could adversely affect our business. We cannot assure you that we will be able to retain our key employees or that we can identify, attract and retain highly skilled personnel in the future.

We face capacity constraints on our software and infrastructure systems that may be costly and time-consuming to resolve

We use proprietary and licensed software to crawl the web and index web pages, create and edit listings, compile and distribute our search results, track paid clicks, and detect click fraud. Any of these software systems may contain undetected errors, defects or bugs or may fail to operate with other software applications. The following developments may strain our capacity and result in technical difficulties with our web site or the web sites of our distribution partners:

- customization of our search results for distribution to particular partners,
- substantial increases in the number of search queries to our database,
- substantial increases in the number of listings in our search databases, or
- the addition of new products, features or changes in our directory structure.

If we fail to address these issues in a timely manner, we may lose the confidence of advertisers and partners, our revenues may decline and our business could suffer. In addition, as we expand our service offerings and enter into new business areas, we may be required to significantly modify and expand our software and infrastructure systems. If we fail to accomplish these tasks in a timely manner, our business will likely suffer.

Our quarterly revenues and operating results may fluctuate for many reasons, each of which may negatively affect our stock price

Our revenues and operating results will likely fluctuate significantly from quarter to quarter as a result of a variety of factors, including:

- changes in our distribution network, particularly the gain or loss of key distribution partners, or changes in the implementation of search results on partner web sites,
- changes in the number of advertisers who purchase our listings, or the amount of spending per customer,

- the revenue-per-click we receive from advertisers, or other factors that affect the demand for, and prevailing prices of, Internet advertising and marketing services,

- the effect of accounting for our headquarters office lease in San Francisco, which reflects our management's assumptions about the subleasing market,

- systems downtime on our Advertiser Center, our web site or the web sites of our distribution partners, or

- the effect of variable accounting for stock options, which requires that we book an operating expense in connection with some of our outstanding stock options at the end of each quarter, depending on the closing price of our common stock on the last trading day of the quarter and the number of stock options subject to variable accounting.

Due to the above factors, we believe that period-to-period comparisons of our financial results are not necessarily meaningful, and you should not rely on past financial results as an indicator of our future performance. If our financial results in any future period fall below the expectations of securities analysts and investors, the market price of our securities would likely decline.

Our business depends on Internet service providers, and any failure or system downtime experienced by these companies could materially and adversely affect our revenues

Our users, partners and customers depend on ISPs, online service providers and other third parties for access to LookSmart search results. These service providers have experienced significant outages in the past and could experience outages, delays and other operating difficulties in the future. The occurrence of any or all of these events could adversely affect our reputation, brand and business, which could have a material adverse effect on our financial results.

We have an agreement with Savvis Communications, Inc. to house equipment for web serving and networking and to provide network connectivity services. We also have an agreement with AboveNet Communications, Inc. to provide network connectivity services. We do not presently maintain fully redundant click tracking, customer account and web serving systems at separate locations. Accordingly, our operations depend on Savvis and AboveNet to protect the systems in their data centers from system failures, earthquake, fire, power loss, water damage, telecommunications failure, hackers, vandalism and similar events. Neither Savvis nor AboveNet guarantees that our Internet access will be uninterrupted, error-free or secure. We have developed a 30-day disaster recovery plan to respond in the event of a catastrophic loss of our critical, revenue-generating systems. We have an agreement with Raging Wire, Inc. in Sacramento, California to provide co-location and networking services for our critical systems in such an event. Although we maintain property insurance and business interruption insurance, we cannot guarantee that our insurance will be adequate to compensate us for all losses that may occur as a result of a catastrophic system failure.

Accounting for employee stock options using the fair value method could significantly reduce our net income

As described in note 1 to the consolidated financial statements in this report, the Company is required to adopt SFAS 123R (accounting for stock options using the fair value method of accounting) starting January 1, 2006, which will likely increase our compensation expenses related to stock options. The adoption of SFAS 123R will likely have a significant adverse impact on our results of operations and net loss per share.

We may face liability for claims related to our products and services, and these claims may be costly to resolve

Companies in the Internet, technology and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. These claims might, for example, be made for trademark, copyright or patent infringement, defamation, negligence, personal injury, breach of contract, unfair advertising, unfair competition, invasion of privacy or other claims. As we face increasing competition and expand the number of websites that we publish, the possibility of intellectual property rights claims against us grows, and we cannot guarantee that our services do not infringe the intellectual property rights of others. Lawsuits are filed against us from time to time, and we are currently subject to two purported class action lawsuits in connection with our listings services. In addition, we are obligated in some cases to indemnify our customers or partners in the event that they are subject to claims that our services infringe on the rights of others.

Litigating these claims could consume significant amounts of time and money, divert management's attention and resources, cause delays in integrating acquired technology or releasing new products, or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. Our insurance may not adequately cover claims of this type, if at all. If a court were to determine that some aspect of our search services or listings infringed upon or violated the rights of others, we could be prevented from offering some or all of our services, which would negatively impact our revenues and business. For any of the foregoing reasons, litigation involving our listings business and technology could have a material adverse effect on our business, operating results and financial condition.

We face growing competitive pressures, which could materially and adversely affect our financial results

We compete in the relatively new and rapidly evolving paid search industry, which presents many uncertainties that could require us to further refine our business model. We compete with companies that provide paid placement products, paid inclusion products, and other forms of search marketing, including AOL Time Warner, Ask Jeeves, FindWhat, Google (and its AdWords and Sprinks services), Microsoft's MSN, and Yahoo! (and its Overture service). In the paid inclusion field, we compete for advertisers on the basis of the relevance of our search results, the price per click charged to advertisers, the volume of clicks that we can deliver to advertisers, tracking and reporting of campaign results, customer service and other factors. Some of our competitors have larger distribution networks and proprietary traffic bases, longer operating histories and greater brand recognition than we have.

Litigation, regulation, legislation or enforcement actions directed at or materially affecting the Internet advertising, search engine or website publishing industry may adversely affect the commercial use of our products and services and our financial results

New lawsuits, laws, regulations and enforcement actions applicable to the search engine industry may limit the delivery, appearance and content of our advertising or otherwise adversely affect our business. If such laws are enacted, or if existing laws are interpreted to restrict the types and placements of advertisements we can carry, it could have a material and adverse effect on our financial results. For example, in 2002, the Federal Trade Commission, in response to a petition from a private organization, reviewed the way in which search engines disclose paid placement or paid inclusion practices to Internet users and issued guidance on what disclosures are necessary to avoid misleading users about the possible effects of paid placement or paid inclusion listings on the search results. In 2003, the United States Department of Justice issued statements indicating its belief that displaying advertisements for online gambling might be construed as aiding and abetting an illegal activity under federal law. In 2004, the United States Congress considered new laws regarding sale of pharmaceutical products over the Internet and the use of adware to distribute advertisements on the Internet, any of which could, if enacted, adversely affect our business. If any new law or government agency were to require changes in the labeling, delivery or content of our listings, or if we are subject to legal proceedings regarding these issues, it may reduce the desirability of our services or the types of advertisements that we can run, and our business could be materially and adversely harmed.

Our stock price is extremely volatile, and such volatility may hinder investors' ability to resell their shares for a profit

The stock market has experienced significant price and volume fluctuations in recent years, and the stock prices of Internet companies have been extremely volatile. Because of our limited operating history and the operational changes required by the reduction of the Microsoft distribution channel resulting from the expiration of our contractual relationship with Microsoft's MSN in the first quarter of 2004, it is extremely difficult to evaluate our business and prospects. You should evaluate our business in light of the risks, uncertainties, expenses, delays and difficulties associated with managing and growing a relatively new business, many of which are beyond our control. Our stock price may decline, and you may not be able to sell your shares for a profit, as a result of a number of factors including:

- changes in the market valuations of Internet companies in general and comparable companies in particular,
- quarterly fluctuations in our operating results,
- the termination or expiration of our distribution agreements,
- our potential failure to meet our forecasts or analyst expectations on a quarterly basis,
- the relatively thinly traded volume of our publicly traded shares, which means that small changes in the volume of trades may have a disproportionate impact on our stock price,
- the loss of key personnel, or our inability to recruit experienced personnel to fill key positions,
- changes in ratings or financial estimates by analysts or the inclusion/removal of our stock from certain stock market indices used to drive investment choices,
- announcements of new partnerships, technological innovations, acquisitions or products or services by us or our competitors,
- the sales of substantial amounts of our common stock in the public market by participants in our pre-IPO equity financings or by owners of businesses we have acquired, or the perception that such sales could occur,
- the exchange by Chess Depository Interest (CDI) holders of CDIs for shares of common stock and resale of such shares in the Nasdaq National Market (as of August 2, 2005, the CDIs registered for trading on the Australian Stock Exchange were exchangeable into an aggregate of approximately 11.3 million shares of common stock), or
- conditions or trends in the Internet that suggest a decline in rates of growth of advertising-based Internet companies.

In the past, securities class action litigation has often been instituted after periods of volatility in the market price of a company's securities. A securities class action suit against us could result in substantial costs and the diversion of management's attention and resources, regardless of the merits or outcome of the case.

We may need additional capital in the future to support our operations and, if such additional financing is not available to us, our liquidity and results of operations will be materially and adversely impacted

Although we believe that our working capital will provide adequate liquidity to fund our operations and meet our other cash requirements for the foreseeable future, unanticipated developments in the short term, such as the entry into agreements which require large cash payments or the acquisition of businesses with negative cash flows, may necessitate additional financing. We may seek to raise additional capital through public or private debt or equity financings in order to:

- fund our operations and capital expenditures,
- take advantage of favorable business opportunities, including geographic expansion or acquisitions of complementary businesses or technologies,
- develop and upgrade our technology infrastructure,
- develop new product and service offerings,
- take advantage of favorable conditions in capital markets, or
- respond to competitive pressures.

The capital markets, and in particular the public equity market for Internet companies, have historically been volatile. It is difficult to predict when, if at all, it will be possible for Internet companies to raise capital through these markets. We cannot assure you that the additional financing will be available on terms favorable to us, or at all. If we issue additional equity or convertible debt securities, our existing stockholders may experience substantial dilution.

We rely on insurance to mitigate some risks and, to the extent the cost of insurance increases or we are unable to maintain sufficient insurance to mitigate the risks, our operating results may be diminished

We purchase insurance to cover potential risks and liabilities. In the current environment, insurance companies are increasingly specific about what they will and will not insure. It is possible that we may not be able to get enough insurance to meet our needs, may have to pay very high prices for the coverage we do get or may not be able to acquire any insurance for certain types of business risk. This could leave us exposed to potential claims or unexpected events. If we were found liable for a significant claim in the future, our operating results could be negatively impacted. Also, to the extent the cost of insurance increases, our operating results will be negatively affected.

The occurrence of a natural disaster or unanticipated problems at our principal headquarters or at a third-party facility could cause interruptions or delays in our business, loss of data or could render us unable to provide some services. Our California facilities exist on or near known earthquake fault zones and a significant earthquake could cause an interruption in our services. We do not have back-up sites for our main customer operations center, which is located at our San Francisco, California office. An interruption in our ability to serve search results, track paid clicks, and provide customer support would materially and adversely affect our financial results.

Our acquisition of businesses and technologies may be costly and time-consuming; acquisitions will likely also dilute our existing stockholders

From time to time we evaluate corporate development opportunities, and when appropriate, we intend to make acquisitions of, or significant investments in, complementary companies 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 LookSmart. It may be difficult to retain key management and technical personnel of the acquired company during the transition period following an acquisition. Acquisitions or other strategic transactions 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 intangible assets or record impairment of goodwill in connection with future acquisitions, which would adversely affect our operating results.

We have acquired businesses and technologies in recent years, including the acquisition of certain assets from BioNet Systems, LLC in the second quarter of 2004 and from Furl, LLC in the third quarter of 2004. Integration of acquired companies and technologies into LookSmart is likely to be expensive, time-consuming and strain our managerial resources. We may not be successful in integrating any acquired businesses or technologies and these transactions may not achieve anticipated business benefits. We license to end users certain software we acquired from BioNet Systems, LLC, but we may lack the managerial and technical resources necessary to implement a successful software licensing business model in a timely manner. Unlicensed copying and use of such software in the United Sates and abroad will represent a loss of revenue to us. Furthermore, end users may not license our products at projected rates.

If we become subject to employment claims, we could incur liability for damages and incur substantial costs in defending ourselves

Companies in our industry whose employees accept positions with competitors frequently claim that these competitors have engaged in unfair hiring practices or that the employment of these persons would involve the disclosure or use of trade secrets. These claims could prevent us from hiring personnel or cause us to incur liability for damages. We may also be sued in connection with our restructuring and workforce reductions by employees claiming wrongful termination or similar causes of action. We could also incur substantial costs in defending ourselves or our employees against these claims, regardless of their merits. Defending ourselves from these claims could also divert the attention of our management away from our operations.

Privacy-related regulation of the Internet could limit the ways we currently collect and use personal information, which could decrease our advertising revenues or increase our costs

Internet user privacy has become an issue both in the United States and abroad. The United States Congress is considering new legislation to regulate Internet privacy, and the Federal Trade Commission and government agencies in some states and countries have investigated some Internet companies, and lawsuits have been filed against some Internet companies, regarding their handling or use of personal information. Any laws imposed to protect the privacy of Internet users may affect the way in which we collect and use personal information. We could incur additional expenses if new laws or court judgments, in the United States or abroad, regarding the use of personal information are introduced or if any agency chooses to investigate our privacy practices.

Our search engine places information, known as cookies, on a user’s hard drive, generally without the user’s knowledge or consent. This technology enables web site operators to target specific users with a particular advertisement, to limit the number of times a user is shown a particular advertisement, and to track certain behavioral data. Although some 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, many consumers are not aware of this option or are not knowledgeable enough to use this option. Some 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, which could result in a decline in our revenues.

We and some of our partners or advertisers retain information about our users. If others were able to penetrate the network security of these user databases and access or misappropriate this information, we and our partners or advertisers could be subject to liability. These claims may result in litigation, our involvement in which, regardless of the outcome, could require us to expend significant time and financial resources.

We may incur unforeseen expenses and liabilities in connection with the dissolution of BT LookSmart and closure of our international operations

We are still in the process of dissolving our joint venture, BT LookSmart, and our other international operations. Withdrawal from foreign markets and closure or dissolution of foreign operations may be more costly than we anticipated, possibly involving employment-related litigation or tax audits. If we incur costs in excess of the amounts we forecasted in connection with these activities, our financial results would be materially and adversely affected.

New tax treatment of companies engaged in Internet commerce may adversely affect the commercial use of our search service and our financial results

Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate tax treatment of companies engaged in Internet commerce. New or revised state tax regulations may subject us or our advertisers to additional state sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and, in particular, sales taxes, would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. Any of these events could have an adverse effect on our business and results of operations.

Provisions of Delaware corporate law and provisions of our charter and bylaws may discourage a takeover attempt

Our charter and 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. Our board of directors has the authority to issue shares of preferred stock and to determine the price, rights, preferences and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The 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 a majority of our outstanding voting stock. In addition, our charter and bylaws provide for a classified board of directors. These provisions, along with Section 203 of the Delaware General Corporation Law, prohibiting certain business combinations with an interested stockholder, could discourage potential acquisition proposals and could delay or prevent a change of control.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. The Company's exposure to market risk for interest rate changes relates primarily to its short-term and long-term investments. The Company had no derivative financial instruments as of June 30, 2005 or December 31, 2004. The Company invests its excess cash in debt and equity instruments of high-quality corporate issuers with original maturities greater than three months and effective maturities less than two years. The amount of credit exposure to any one issue, issuer and type of instrument is limited. These securities are subject to interest rate risk and vary in value as market interest rates fluctuate. If market interest rates were to increase or decrease immediately and uniformly by 10% from levels as of June 30, 2005 or December 31, 2004, the increase or decline in the fair value of the investment portfolio would not be material to our results of operations.

Foreign Currency Risk. International revenues from the Company's foreign subsidiaries were 0% for the three and six months ended June 30, 2005 and 11% and 14% for the three and six months ended June 30, 2004, respectively, of total revenue and were derived from our Australian, United Kingdom and Japanese operations.

The Company's international business was subject to risks typical of an international business, including but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility, particularly the exchange rates between the Australian dollar, the United Kingdom Pound, the Japanese Yen and the United States dollar. In the first quarter of 2004, the Company signed agreements to sell the assets and activities of its international subsidiaries and has commenced liquidation procedures of all international entities.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining "disclosure controls and procedures" (as defined in

rules promulgated under the Securities Exchange Act of 1934, as amended) for our company. Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and Form 10-Q.

(b) Changes in internal controls. There were no changes in the Company's internal controls over financial reporting during the period covered by this report

(c) Limitations on the Effectiveness of Controls. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the Chief Executive Officer and the Chief Financial Officer have concluded that these controls and procedures are effective at the "reasonable assurance" level.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In August 2004, Mario Cisneros and Michael Voight filed a private attorney general lawsuit on behalf of a proposed class in Superior Court in San Francisco County, California. The complaint names thirteen search engines or web publishers as defendants (including the Company) and alleges unfair business practices, unlawful business practices and other causes of action in connection with the display of advertisements from internet gambling companies. The complaint seeks restitution, unspecified compensatory damages, declaratory and injunctive relief, and attorneys' fees. Plaintiffs filed a motion for preliminary injunction and served discovery requests, and the Company has responded to the complaint and filed a motion to strike certain allegations, which the court denied in part and granted in part. The court also allowed certain discovery to proceed with respect to plaintiffs' motion for preliminary injunction. Recently the court ordered an October 2005 trial on an issue in the case. At this point in time, the Company does not have sufficient information to assess the validity of the complaint or the amount of potential damages.

In February 2005, Lane's Gifts and Collectibles, L.L.C. and U.S. Citizens for Fair Credit Card Terms, Inc., filed a lawsuit on behalf of a proposed nationwide class of similarly situated persons in Circuit Court in Miller County, Arkansas. Subsequently, plaintiffs filed first and second amended complaints adding additional plaintiffs. The Company was served with the second amended complaint in March 2005, which names eleven search engines or web publishers as defendants (including the Company) and alleges breach of contract, unjust enrichment, civil conspiracy and other causes of action in connection with the sale of clicks not generated by actual consumer click-throughs. The complaint seeks monetary damages, restitution, prejudgment interest, attorneys' fees and other remedies. The case was removed to United States District Court in Arkansas in March 2005. Plaintiffs subsequently filed a motion for remand, which was recently granted. In July 2005, defendants, including the Company, petitioned the Eighth Circuit Court of Appeals for an appeal of the remand order, and moved to stay the proceedings while the appeal is pending. At this point in time, the Company does not have sufficient information to assess the validity of the complaint or the amount of potential damages.

We are also involved, from time to time, in various legal proceedings arising from the normal course of business activities. Although the results of litigation and claims cannot be predicted with certainty, we do not expect resolution of these matters to have a material adverse impact on our consolidated results of operations, cash flows or financial position. However, an unfavorable resolution of a matter could, depending on its amount and timing, materially affect our future results of operations, cash flows or financial position in a future period. Regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors.

ITEM 6. EXHIBITS

Please see the exhibit index following the signature page of this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LOOKSMART, LTD.

By: /s/ WILLIAM B. LONERGAN

William B. Lonergan, Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1(1)	Restated Certificate of Incorporation
3.2(2)	Bylaws
4.1(3)	Form of Specimen Stock Certificate
4.2(4)	Forms of Stock Option Agreement used by the Registrant in connection with grants of stock options to employees, directors and other service providers in connection with the Amended and Restated 1998 Stock Plan
10.55	Amendment No. 3 to the Prioritized Listings Syndication Agreement between the Registrant and Search123, Inc. dated June 24, 2005.
10.56	Amendment No. 2 to the Prioritized Listings Syndication Agreement between the Registrant and Interchange Corporation, dated July 19, 2005.
10.57(5)	Employment offer letter between the Registrant and its senior vice president, business development, dated April 19, 2005.
10.57(6)	Amendment to employment offer letter between the Registrant and its chief executive officer, dated June 21, 2005.
10.57(7)	Employment offer letter between the Registrant and its senior vice president and general counsel of the Registrant, dated July 11, 2005.
10.58(5)	Employment offer letter between the Registrant and its senior vice president and chief technical officer, dated April 19, 2005.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Filed with the Company's Registration Statement on Form S-1 (File No. 333-80581) filed with the SEC on June 14, 1999.

(2) Filed with the Company's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2000.

(3) Filed with the Company's Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-80581) filed with the SEC on July 27, 1999.

(4) Filed with the Company's Current Report on Form 8-K filed with the SEC on October 22, 2004.

(5) Filed with the Company's Current Report on Form 8-K filed with the SEC on April 25, 2005.

(6) Filed with the Company's Current Report on Form 8-K filed with the SEC on June 21, 2005.

(7) Filed with the Company's Current Report on Form 8-K filed with the SEC on July 14, 2005.

Exhibit 10.55

THIRD AMENDMENT TO THE PRIORITIZED LISTINGS SYNDICATION AGREEMENT BETWEEN LOOKSMART, LTD. AND SEARCH 123 INC.

This Third Amendment (the "Third Amendment") to the Prioritized Listings Syndication Agreement dated as of August 21, 2001 (as amended to date, the "Agreement") is entered into as of June 24, 2005 by and between LookSmart, Ltd., a Delaware corporation, ("LookSmart") and Search123, Inc., a California corporation ("Partner").

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree that during the term of this Third Amendment, the Agreement (as amended) shall be amended as follows:

1. The effective date of the Second Amendment (entered into on February 8, 2005) shall be November 4, 2004, for purposes of Sections 3.1 and 3.2 of the Agreement.
2. All other terms of the Agreement not expressly modified herein shall remain in full force and effect.

IN WITNESS WHEREOF, the Parties have executed this Third Amendment as of the date set forth above. In the event of any conflict between the terms hereof and the terms of the Agreement, the terms hereof shall govern. This Third Amendment may be executed in counterparts, each of which may be an original or fax copy, and all of which together shall form one instrument.

LookSmart Ltd.	**Search123, Inc.**
By: /s/ Bryan Everett	By: /s/ James Beriker
Name: Bryan Everett	Name: James Beriker
Title: SVP, Sales	Title: GM, ValueClick Search

Exhibit 10.56

SECOND AMENDMENT TO THE PRIORITIZED LISTINGS SYNDICATION AGREEMENT BETWEEN LOOKSMART, LTD. AND INTERCHANGE CORPORATION

This Second Amendment (the "Second Amendment") to the Prioritized Listings Syndication Agreement dated as of October 19, 2001 (as amended to date, the "Agreement") is entered into as of July 19, 2005 by and between LookSmart, Ltd., a Delaware corporation, ("LookSmart") and Interchange Corporation (formerly eLiberation Inc.), a Delaware corporation ("Partner").

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree that during the term of this Second Amendment, the Agreement (as amended) shall be further amended as follows:

1. Section 3 **Cost per Click (CPC)** is hereby deleted and replace with the following:

   Subject to the terms and conditions hereof, for any given calendar month, LookSmart will pay Partner a share of revenues for all valid Clicks generated by Partner, as recorded by LookSmart's proprietary click tracking system. For each Click, the share of revenue paid to Partner will be equal to the cost-per-click ("CPC") bid by LookSmart for the corresponding search term, less a month-end adjustment for credit card fraud, advertising complaints or similar items. LookSmart will determine the CPC bid and include it in the live feed sent in response to such query. CPC bids may change frequently, and LookSmart will have sole discretion to decide the CPC bid for each search term, provided however that (i) for high and medium value feeds (as determined by LookSmart) the CPC bid by LookSmart will be not less than forty five percent (45%) of the amount LookSmart bills to the relevant advertiser for that click, and (ii) for any other feed the CPC bid by LookSmart will be not less than 39% of the amount LookSmart bills to the relevant advertiser for that click. Partner may use the CPC bid included in the live feed for its internal purposes, but the parties agree that all CPC bid amounts submitted by LookSmart are confidential information for internal use only, and shall not be posted on Partner's web pages or disclosed to any third parties. LookSmart shall have no obligation to pay for clicks which are delivered in violation of the Agreement.

2. All other terms of the Agreement not expressly modified herein shall remain in full force and effect.

IN WITNESS WHEREOF, the Parties have executed this Second Amendment as of the date set forth above. In the event of any conflict between the terms hereof and the terms of the Agreement, the terms hereof shall govern. This Second Amendment may be executed in counterparts, each of which may be an original or fax copy, and all of which together shall form one instrument.

LookSmart Ltd.	**Interchange Corporation**
By: /s/ Bryan Everett	By: /s/ Douglas S. Norman
Name: Bryan Everett	Name: Douglas S. Norman

Exhibit 31.1

CERTIFICATION

I, David B. Hills, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LookSmart, Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2005

/s/ David B. Hills
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, William B. Lonergan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LookSmart, Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2005

/s/ William B. Lonergan
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, David Hills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of LookSmart, Ltd. on Form 10-Q for the fiscal quarter ended June 30, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of LookSmart, Ltd.

Date: August 9, 2005

By:

/s/ David B. Hills
Name: David B. Hills
Title: Chief Executive Officer

I, William B. Lonergan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of LookSmart, Ltd. on Form 10-Q for the fiscal quarter ended June 30, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of LookSmart, Ltd.

Date: August 9, 2005

By:

/s/ William B. Lonergan
Name: William B. Lonergan
Title: Chief Financial Officer

Directors' Report

The directors of LookSmart Limited submit herewith the financial report for the half-year ended June 30, 2005.

Directors

The names of the directors of the company during or since the end of the half-year are:

Mr. Anthony Castagna
Ms. Teresa Dial
Ms. Tracey Ellery
Mr. David Hills
Mr. Mark Sanders
Mr. Evan Thornley
Mr. Edward F. West
Mr. Gary Wetsel

The above named directors held office during or since the end of the half-year except for:

- Tracey Ellery – term expired on June 15, 2005
- Evan Thornley – term expired on June 15, 2005

On June 15, 2005, the Board of Directors appointed Edward F. West as Chair of the Board, and outgoing Chair of the Board Teresa Dial remains as a member of the Board.

Review of Operations

Please see the Form 10-Q lodged with the Appendix 4D on August 9, 2005. The Form 10-Q is prepared and lodged in accordance with a resolution of the directors.

Signed in accordance with a resolution of the directors.

On behalf of the directors

/s/ Edward F. West

Edward F. West
Chair of the Board of Directors

August 9, 2005

Directors' Declaration

In accordance with a resolution of the directors of LookSmart Limited, the directors declare that with regards to the Form 10-Q lodged with the Appendix 4D:

(a) The attached financial statements and notes thereto are prepared in accordance with accounting principles generally accepted in the United States of America;

(b) The attached financial statements and notes thereto give a true and fair value view of the financial position and performance of the consolidated entity; and

(c) In the opinion of the directors there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the directors

/s/ Edward F. West

Edward F. West
Chair of the Board of Directors

August 9, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
of LookSmart, Ltd. and Subsidiaries

We have reviewed the accompanying condensed consolidated balance sheet of LookSmart, Ltd. and its subsidiaries (the Company) as of June 30, 2005, and the related condensed consolidated statements of operations and comprehensive loss for each of the three-month and six-month periods ended June 30, 2005 and June 30, 2004 and the condensed consolidated statements of cash flows for the six-month periods ended June 30 2005 and 2004, included in the Company's June 30, 2005 Appendix 4D. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2004, and the related consolidated statements of operations and comprehensive income (loss), of stockholders' equity (deficit) and of cash flows for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2004; and in our report dated March 15, 2005, we expressed unqualified opinions thereon. The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
August 9, 2005