

Edgar Filing: Answers CORP - Form 10-K

Answers CORP
Form 10-K
March 08, 2010

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____.

Commission file number 001-32255

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10001
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock	The NASDAQ Capital Market

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

Edgar Filing: Answers CORP - Form 10-K

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
No

Edgar Filing: Answers CORP - Form 10-K

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (do not check if smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>
---	--	--	--

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes
No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, computed by reference to price at which the common equity was sold, or the average bid and asked price of such common stock as of June 30, 2009, was \$60,860,415. For purposes of this computation, the registrant has excluded the market value of all shares of its common stock reported as being beneficially owned by executive officers and directors and holders of more than 10% of the common stock on a fully diluted basis of the registrant; such exclusion shall not, however, be deemed to constitute an admission that any such person is an "affiliate" of the registrant. As of March 4, 2010, there were 7,958,928 issued and outstanding shares of common stock of the registrant.

Edgar Filing: Answers CORP - Form 10-K

Table of Contents

	Page
References to Web Property Usage Measurements	
Part I	
<u>Item 1:</u> <u>Business</u>	2
<u>Item 2:</u> <u>Properties</u>	14
<u>Item 3:</u> <u>Legal Proceedings</u>	14
Part II	
<u>Item 5:</u> <u>Market for the Registrant’s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	15
<u>Item 7:</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 8:</u> <u>Financial Statements and Supplementary Data</u>	34
<u>Item 9:</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	72
<u>Item 9A(T):</u> <u>Controls and Procedures</u>	72
<u>Item 9B:</u> <u>Other Information</u>	73
Part III	
<u>Item 10:</u> <u>Directors, Executive Officers and Corporate Governance</u>	74
<u>Item 11:</u> <u>Executive Compensation</u>	80
<u>Item 12:</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	89
<u>Item 13:</u> <u>Certain Relationships and Related Transactions and Director Independence</u>	89
<u>Item 14:</u> <u>Principal Accounting Fees and Services</u>	90
Part IV	
<u>Item 15:</u> <u>Exhibits and Financial Statement Schedules</u>	91

Table of Contents

References to Web Property Usage Measurements

We gauge the effectiveness of our monetization efforts and trends by measuring our revenue per thousand page views, or RPM. Throughout this Annual Report, we refer to estimates of traffic, or page views. In our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") prior to our quarterly report on Form 10-Q for the quarterly period ended June 30, 2008, we tracked the traffic on ReferenceAnswers and WikiAnswers Web properties using two separate systems:

- ReferenceAnswers traffic was measured using our internally developed server-side, log-based system ("Internal Data Warehouse"). This system was designed to identify traffic from search engine robots and other known Web robots, commonly referred to as Web spiders or Web crawlers, as well as from suspected automated spidering scripts, and excluded such traffic from the traffic activity measurements.
- WikiAnswers traffic was tracked using HBX Analytics, a tag-based Web analytics system offered by Omniture, Inc., ("Omniture"). Traffic measurements from this system are generated by our placement of tags on our Web pages. The Omniture system then independently generates traffic metrics.

Beginning with the MD&A in our quarterly report on Form 10-Q for the quarterly period ended June 30, 2008, all traffic measurements (including measurements previously reported in past filings using our Internal Data Warehouse) for ReferenceAnswers are also presented based on the Omniture data. We estimate that the historical page views for ReferenceAnswers pursuant to Omniture data, as set forth in our reports beginning with our quarterly report on Form 10-Q for the quarterly period ended June 30, 2008, are approximately 11% lower than the traffic measurements reported in previous filings. Consequently, our ReferenceAnswers RPMs, as reported in our current reports, reflect higher values than those presented in previous filings.

We also use Google, Inc.'s Google Analytics measurement services and Google AdSense data to estimate the breakdown of our traffic sources. Google Analytics measurements are generated by our placement of tags on our Web properties' pages, which Google Analytics uses to count and report audience metrics independently.

In this Annual Report, statistics gathered from Omniture and Google Analytics are also referred to as "internal estimates".

We also follow and report certain measurements performed by comScore, Inc., a global leader in measuring the digital world and one of the preferred sources of digital marketing intelligence. comScore's "unique visitors" data to which we subscribe is based on a new solution introduced by comScore in mid-2009, Media Metrix 360, a 'panel-centric hybrid' solution to digital audience measurement. The new approach combines person-level measurement from comScore's proprietary 2 million person global panel with Web site server metrics. Our focus on comScore's unique visitors metric – in the U.S. and worldwide – helps us understand and analyze our progress vis-à-vis other Web properties in general and in the context of the competitive Q&A space, in particular.

Certain comScore clients have moved to a full-hybrid measurement methodology, while others have moved to partial hybrid status, or have yet to implement hybrid measurement. Direct comparison of a ranking post-hybrid implementation vs. pre-Hybrid implementation may not reflect the actual change in the site's ranking or audience size over time. Answers implemented hybrid measurement beginning August 2009.

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

Edgar Filing: Answers CORP - Form 10-K

We also generate community-related statistics, including total number of answers and new registered users, from our own systems contained in the WikiAnswers property.

1

Table of Contents

ANSWERS CORPORATION

PART I

Item 1. Business

Introductory Note

This Annual Report on Form 10-K contains “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements are based on expectations, estimates, goals and projections as of the date of this filing and are subject to significant risks and uncertainties. Actual results may differ materially from those expressed in forward looking statements.

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

In this Annual Report, “Answers.com,” the “Company,” “we,” “us” and “our” refer to Answers Corporation and its subsidiary GuruNet Israel Ltd.

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

Available Information

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

Mission

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

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

We intend to build the best online:

- § Answer experience
- § Answer database
- § Q&A community

Overview

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

Table of Contents

According to comScore data for the month of January 2010, Answers.com had 50 million unique visitors, which ranked us number 18 in the top U.S. Web properties. Worldwide, Answers.com had approximately 77 million unique visitors, ranking us number 33 in the world's top properties.

According to our internal estimates, during 2009, Answers.com yielded approximately 3.4 billion page views.

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

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

Company History

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

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

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

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

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

In September 2009 we announced the launch of the new Answers.com, in recognition of our completing the integration of our two Web properties. Thus, Answers.com is now our umbrella brand and is comprised of two properties or sub-brands, WikiAnswers and ReferenceAnswers. At the end of 2009 we announced the availability of the WikiAnswers component of Answers.com in four new languages: French, Italian, German and Spanish, extending the power of the popular wiki Q&A platform beyond our English language user base. These languages joined our Tagalog version, which was created and developed organically by users in the Philippines.

Products & Services

The New Answers.com

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

3

Table of Contents

Integration of WikiAnswers and ReferenceAnswers

The first stages of the integration were minor - creating a similar “look and feel” for, and cross-linking between, the two Web properties. Thus, for example, a user looking up “Michael Jackson” in ReferenceAnswers, arrived at a page displaying reference content covering the specific query, in addition to being asked to answer WikiAnswers unanswered questions relating to Michael Jackson. The result page also resembled a WikiAnswers page by way of including the standard “Ask” and “Answer” bar in the header of the page, as opposed to the original “Search” button displayed adjacent to the query bar. Subsequently, we added an “All” radio button adjacent to the query bar on both properties, allowing users, should they choose, to find a result by searching both properties. In the second quarter of 2009, we took an important additional step in integrating both Web properties by making the “All” radio button the default setting above the query box of both properties. As a result of this user-interface change, users typing in queries into either of our properties are automatically directed to the Web page our algorithms deem most appropriate as a response. For example, a user typing the query, “When did WWII start?” in ReferenceAnswers, lands on a Web page belonging to WikiAnswers with an answer to that question. A user typing the query “Who is Oprah Winfrey?” in WikiAnswers, arrives at a ReferenceAnswers page displaying the Oprah Winfrey topic. In September 2009, we took our final step in integrating the two Web properties by creating a new unified Answers.com home page and login, integrating features from both properties, and making other changes in our user interface to strengthen our positioning as having one dominant product and brand, Answers.com, comprised of the two properties, WikiAnswers and ReferenceAnswers.

The WikiAnswers Component

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

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

The WikiAnswers component grew very strongly in 2009. Average daily page views in the fourth quarter of 2009 were 8.2 million, 88% higher than the same quarter in 2008. Based on the daily average for the month of December 2009 compared to December 2008, we have seen the following increases in key performance indicators:

- questions answered on a daily basis increased from approximately 8,400 to approximately 11,500; and
- daily new questions being added to our system grew from approximately 28,100 to approximately 37,600.

The ReferenceAnswers Component

Edgar Filing: Answers CORP - Form 10-K

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

Table of Contents

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

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

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

1-Click Answers; AnswerTips; Web-Based AnswerTips

1-Click Answers is a tool that facilitates access to Answers.com. With 1-Click Answers installed on a computer, a user can click on a word or phrase within virtually any application, such as an e-mail, spreadsheet, document or database, and gain access to Answers.com's online library. Answers.com content related to the word or phrase is displayed in an AnswerTips pop-up information bubble. Available for users of both Microsoft Windows and Apple's Macintosh OS X, 1-Click Answers performs contextual analysis of the words or phrase clicked. For example, when clicking on the word "Ford" appearing in the context of Ford Motor Company, Harrison Ford, or Gerald Ford, 1-Click Answers will process and recognize the context and deliver information on the vehicle manufacturer, the film star, or the U.S. president, respectively.

Since 2007, we began offering other Web properties and blogs the ability to provide their users with the 1-Click functionality through our webmaster tool version of AnswerTips, which does not require a download. The Web version of AnswerTips is triggered when a visitor double-clicks a word or phrase on an "AnswerTips-enabled" site.

Internationalization

In the third quarter of 2009 we launched French, Italian, German and Spanish language versions of WikiAnswers, which we refer to as "FIGS". The Q&A platform also supports Tagalog (Filipino). Our strategy will capitalize on the needs of users around the globe who are searching for answers online and will leverage our core strengths: community building and Q&A space. Further, we plan on leveraging our large and dynamic English language database and community, to grow our foreign language versions. The WikiAnswers English language database contains over 7 million answered questions. We are selectively translating some of our answered English language questions, to help accelerate the adoption of our non-English versions, and plan to continue that effort throughout 2010.

Based on the success of our current internationalization efforts, we may decide to add support for additional languages in 2010 and beyond.

Table of Contents

Traffic Generation

Our revenues are primarily driven by the traffic generated by Answers.com and our ability to effectively monetize that traffic. Please refer to the preamble of this Annual Report for a full explanation of the manner in which we measure traffic. The 2009 average daily page views and RPMs (revenue per thousand page views) of Answers.com, by quarter, broken down by component, are as follows:

	Q1	Q2	Q3	Q4
Traffic (page views)				
WikiAnswers	5,337,000	6,082,000	6,336,000	8,199,000
ReferenceAnswers	2,982,000	2,965,000	2,857,000	2,737,000
Total	8,319,000	9,047,000	9,193,000	10,936,000
RPM (Revenue per thousand page views)				
WikiAnswers	64%	67%	69%	75%
ReferenceAnswers	36%	33%	31%	25%
Total	100%	100%	100%	100%
RPM (Revenue per thousand page views)				
WikiAnswers	\$6.58	\$6.14	\$5.87	\$5.93
ReferenceAnswers	\$5.84	\$5.87	\$5.89	\$6.08

Search engines. Answers.com's largest source of traffic is search engines, which represented 89% of our traffic for the fourth quarter of 2009. Among search engines, Google is by far our largest provider of search engine traffic, providing approximately 84% of overall search engine traffic.

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

In July 2007, a search engine algorithm adjustment by Google led to a drop in Google directed traffic to ReferenceAnswers. Future changes in algorithms that search engines use to identify Web pages towards which traffic will ultimately be directed, or restrictions by search engines on users visiting Answers.com, could cause a significant decrease in traffic and revenues.

Direct users. Answers.com also receives traffic from users visiting and returning to our sites directly. Direct users, including Google definition link traffic, represented 11% of our traffic for the fourth quarter of 2009.

Google definition link. Since 2005, we benefited from an informal, non-contractual relationship with Google under which Google linked certain search results related to definitional queries to ReferenceAnswers. This link (or links, in

the case of multiple-phrase queries) appeared at the right end of the blue header bar for Google Search Results. For the ten months ended October 31, 2009, according to our internal estimates, this source of traffic represented approximately 5% of our overall traffic and revenue. In October 2009, Google informed us that beginning sometime during the fourth quarter of 2009, they will no longer be sending us traffic from the Google Definition Link. By the end of 2009, all Google definition link traffic had been discontinued. Despite this change, we continue to receive very significant levels of traffic from Google's search engine, as described above.