

GURUNET CORP  
Form 424B3  
May 11, 2005

Filed Pursuant to Rule 424(b)(3)  
File Number 333-123906

**PROSPECTUS SUPPLEMENT NO. 1**

**Prospectus Supplement dated May 11, 2005  
To Prospectus declared  
effective on April 21, 2005  
(Registration No. 333-123906)**

**GURUNET CORPORATION**

This Prospectus Supplement No. 1 supplements our Prospectus dated April 21, 2005. The shares that are the subject of the Prospectus have been registered to permit their resale to the public by the selling stockholders named in the Prospectus. We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering, other than the exercise price, if any, to be received upon exercise of the warrants and options referred to in the Prospectus. You should read this Prospectus Supplement No. 1 together with the Prospectus.

This Prospectus Supplement includes the following documents, as filed by us with the Securities and Exchange Commission:

- the attached Current Report on Form 8-K/A of GuruNet Corporation dated April 29, 2005;
- the attached Current Report on Form 8-K of GuruNet Corporation dated May 10, 2005;
- the attached Current Report on Form 8-K of GuruNet Corporation dated May 10, 2005; and
- the attached Quarterly Report on Form 10-QSB of GuruNet Corporation for the fiscal quarter ended March 31, 2005.

Our common stock is listed on the American Stock Exchange under the symbol "GRU."

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this Prospectus Supplement. Any representation to the contrary is a criminal offense.**

**The date of this Prospectus Supplement is May 11, 2005.**

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 8-K/A

CURRENT REPORT

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

Date of report (Date of earliest event reported): April 29, 2005

**GuruNet Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation)

**1-32255**  
(Commission File  
Number)

**98-0202855**  
(IRS Employer  
Identification No.)

**Jerusalem Technology Park  
Building 98**

**Jerusalem, Israel 91481**  
(Address of Principal Executive Offices)

**+972-2-649-5000**  
(Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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### **Item 1.01 Entry into a Material Definitive Agreement**

On April 29, 2005, GuruNet Corporation (the “Company”) entered into a lease agreement (the “Lease”) with 35<sup>th</sup> Street Associates (the “Landlord”) to lease office space in the building known as 237 West 35<sup>th</sup> Street (a portion of the 11<sup>th</sup> floor know as suite 1101) in New York, NY (the “Premises”). The space will serve as the Company’s U.S. headquarters. The term of the Lease shall begin on May 1, 2005 and end on June 30, 2010; however, the Company shall have the right to cancel the Lease commencing May 1, 2008, upon 90 days prior written notice to the Landlord, provided it is not in default of any of the terms of the Lease and it delivers to Landlord an amount representing unamortized free rent (described below) and commissions due as of the date the Lease is terminated. The average base rent for the Premises during the first year of the Lease is approximately \$66,000.00 per annum and will increase to approximately \$74,000.00 per annum during the final year of the Lease. In addition to the base rent, the Company will be responsible for certain costs and charges specified in the Lease, including real estate taxes and utility charges.

In connection with the execution of the Lease, the Company made a security deposit in the amount of \$18,668.24. The Company shall forfeith its security deposit in the event it elects to cancel the Lease as discussed above. The Lease also provides that during the months of May and June 2005, the Company shall not pay base rent.

The foregoing is a summary description of certain terms of the Lease. It is qualified in its entirety by the text of the Lease attached as Exhibit 10.1 to this current report on Form 8-K and incorporated herein by reference.

### **Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.**

The information set forth above in Item 1.01 of this current report on Form 8-K regarding the Lease is hereby incorporated into this Item 2.03 by reference.

### **Item 9.01 Financial Statements and Exhibits**

Exhibit No.	Description
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10.1	Lease Agreement between GuruNet Corporation and 35 <sup>th</sup> Street Associates dated April 29, 2005.
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**SIGNATURES**

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

GURUNET CORPORATION

Dated: May 6, 2005

By: /s/ Steven Steinberg

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Steven Steinberg  
Chief Financial Officer

**EXHIBIT INDEX**

Exhibit No.	Description
10.1	Lease Agreement between GuruNet Corporation and 35 <sup>th</sup> Street Associates dated April 29, 2005.

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Additional Rider attached to and made a part of Lease dated April \_\_, 2005, between 35<sup>th</sup> STREET ASSOCIATES, as Owner, and GURUNET CORPORATION, as Tenant, covering Suite 1101 in the building at 237 West 35<sup>th</sup> Street, New York, New York (“Additional Rider”).

1. In the event of any conflict or inconsistency between the printed form of the Lease (and the Rider thereto) to which this Additional Rider is attached, the provisions of this Additional Rider shall govern.
2. **Permitted Use.** Article 2 of the printed portion of the Lease is revised to read as follows: “Tenant shall use and occupy the demised premises for executive and general office purposes provided, however, that such permitted use shall not include use of the leased premises for manufacturing, check cashing or the sale of precious jewelry.”
3. **Initial Tenant Work.** Owner approves the following initial tenant work (“Initial Tenant Work”) to be performed by Tenant:
  - (i) expansion of existing reception area;
  - (ii) installation of walls/dividers to separate reception area from balance of space to provide more privacy;
  - (iii) installation of conference room behind the expanded reception area; and
  - (iv) installation of water cooler, coffee machine, refrigerator and microwave oven in pantry/kitchen.

In the event that any of the Initial Tenant Work shall involve permanent changes or alterations to the ceiling or building systems, such changes shall be subject to Owner’s consent which shall not be unreasonably withheld or delayed. Owner hereby approves Empire State Contracting Corp. as the contractor for the Initial Tenant Work. If Tenant selects another licensed contractor to perform the Initial Tenant Work, such contractor shall be subject to Owner’s consent, not to be unreasonably withheld or delayed.

Subject to Owner’s consent which shall not be unreasonably withheld or delayed, Tenant shall have the right, at its expense, to extend water service to the pantry kitchen of the demised premises and install a kitchen sink and dishwasher in the pantry kitchen (“Supplemental Kitchen Improvement Work”).

Tenant shall not be required to remove any of the Initial Tenant Work and/or the Supplemental Kitchen Improvement Work upon the expiration or termination of the Lease.

Article 47(E) is deleted in its entirety.

Article 47(F) is amended by changing \$10,000.00 to \$50,000.00.

Except for the Initial Tenant Work hereby approved by Owner and non-structural alterations permitted under Article 47(F), all other alterations or improvements to the demised premises which Tenant desires to make shall be subject to Owner’s consent which shall not be unreasonably withheld or delayed.

4. **Maintenance/Cleaning**. Owner approves Tenant hiring any of the existing contractors servicing tenants in the building for cleaning and rubbish removal. The lien waiver requirement in Article 44(A) of the Lease is omitted.
5. **Interruption of Services**. In the event that the building services are interrupted such that Tenant is unable to use and occupy the demised premises for the intended purpose and such interruption continues for more than five (5) consecutive business days, all rent shall be fully abated until such time as the building services are restored such that Tenant can resume use and occupancy of the demised premises.
6. **ADA**. Owner shall be responsible, at its cost, for complying with the Americans With Disabilities Act (“ADA”) with respect to all of the common/public areas of the building including, without limitation, all corridors and lavatories.
7. **Damage/Destruction**. In the event that the building or a portion thereof is damaged or destroyed such that Tenant shall be unable to use and occupy the entire demised premises and the estimated restoration period is more than 4 months from the date of the casualty (or if the actual restoration work is not completed within such 4 months), Tenant shall have the right to terminate the Lease upon written notice to Owner.
8. **Assignment and Subletting**. If Tenant is a public company, the transfer of shares or interests in Tenant shall not be deemed an assignment of the Lease requiring Owner’s consent.

The first sentence of Article 76 A 1A reading “The proposed assignee or subtenant is of comparable character or financial worth with respect to the overtenant;” shall be deleted.

In the event Tenant desires to assign the Lease or sublease the demised premises or a portion thereof, Tenant shall have the right to market same directly without the assistance of a broker. In the event Tenant desires to retain a broker to assist in any such assignment or subletting transaction, Tenant agrees to retain the building’s managing agent, Kaufman/Adler Realty Co., as exclusive broker upon mutually acceptable terms for a period not to exceed thirty (30) days after which Tenant shall have the right, at its option, to retain another broker on an exclusive basis.

Owner agrees that it will not unreasonably withhold or delay its consent to any proposed assignment of the Lease or sublease of the demised premises or a portion thereof.

Article 76(A)(7) is modified to provide that the maximum aggregate fees or charges to be imposed with respect to any assignment or sublease transaction shall be \$750.00.

Article 76(B) is revised to provide that Owner shall only have the right to terminate the Lease if Tenant subleases more than fifty (50%) percent of the rentable area at the Demised premises.

9. **Electricity**. Except for the provision of the Electric Rider obligating Tenant to pay Owner the sum of \$9,000.00 per annum, payable in monthly installments of \$750.00 in respect of the consumption of electricity, the balance of the Electric Rider is omitted. In the event Tenant desires to make alterations or improvements to the demised premises to increase the electrical capacity serving the demised premises, Owner shall have the right, as a condition to granting its approval thereto (which approval shall not be unreasonably withheld or delayed), to require that the electrical consumption at the demised premises be surveyed in order to determine a revised electric charge for the demised premises to reflect Tenant’s actual electric consumption.

**10. Owner Access.** Any access by Owner to the demised premises shall only be during reasonable business hours upon reasonable prior notice to Tenant (except in the case of an emergency). Such access shall be conducted in a manner that minimizes disruption of Tenant's use and occupancy of the demised premises.

**11. Default.** Article 53(C) of the Lease is omitted.

Tenant's failure to occupy the Demised premises shall not be deemed a default provided that it is paying rent and otherwise complying with the terms of the Lease.

**12. Building Services.** Owner represents that as of the Commencement Date, all building systems including, without limitation, the heating, ventilation and air conditioning system, the plumbing system, the electrical system and the elevator system will be in good working order. Tenant is leasing the Demised premises in its "As Is" condition except for latent defects; provided that Owner shall be responsible for installing, prior to the Commencement Date, the radiator missing in one of the offices and radiator covers on all radiators in the demised premises.

Owner represents that the building is wired for telephone and internet service and that Tenant shall have the right to connect into the building's telephone and internet service utilities at a panel box located in the corridor on the 1<sup>st</sup> floor of the building. Tenant shall be responsible, at its expense, for the cost of extending telephone/internet wiring from the 11<sup>th</sup> floor corridor panel box to the demised premises and shall not be required to remove any such wiring at the expiration or termination of the Lease. Tenant shall have the right to select its own telephone and internet service providers; it being understood and agreed that Tenant can access the existing telephone and internet utilities without being obligated to use a designated service provider.

**13. Possession.** Article 24 is omitted.

**14. Notices.** Any notice given by facsimile shall require a printed confirmation sheet evidencing the transmission and a copy of any such facsimile notice shall also be sent by reputable overnight courier service with next business day delivery specified.

Notices to Tenant shall be sent to Tenant at the demised premises, Attention: Jeff Cutler, with duplicate copies sent to:

Guru Net Corporation  
Jerusalem Technology Park  
Building 98  
Jerusalem 91481 Israel  
Attention: Caleb Chill, Esq.  
Facsimile No.: 011 972 2 649 5001

and to

Sills Cummis Epstein & Gross P.C.  
30 Rockefeller Center  
New York, New York 10112  
Attention: Edwin Weinberg, Esq.  
Facsimile No.: (212) 643-6550

Tenant shall have the right to change any of the foregoing notice parties by giving notice thereof to Owner. Tenant's attorneys shall have the right to give notices on behalf of Tenant.

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15. **Sprinklers**. Tenant shall not be responsible for upgrading or altering sprinkler service unless such upgrade or alteration results solely from alterations or improvements made to the demised premises by Tenant (other than the Initial Tenant Work).
  16. **Building Access**. Tenant shall have access to the demised premises (including elevator service) twenty-four (24) hours a day, seven (7) days a week. Owner agrees that the demised premises is served by a building wide heating system that functions 24 hours a day, 7 days a week with the understanding that the temperature setting during non-business hours is reduced but not eliminated.
  17. **Security Deposit**. Owner agrees that the security deposit shall be refunded within ten (10) business days following the expiration or termination of the Lease. If Owner sells the building, then Owner shall be released from its obligation with respect to the security deposit provided that it actually delivers the security deposit to the new owner and the new owner assumes, in writing, the obligation to comply with the provisions of the Lease.
  18. **Plate Glass**. Tenant shall only be responsible for replacing plate glass if it is damaged or broken by Tenant or its employees or agents.
  19. **Estoppel Certificate**. The estoppel provisions in Articles 38 and 56 shall be mutual as to both Owner and Tenant.
  20. **Building Director/Signs**. Owner hereby consents to Tenant installing the name of Tenant and any affiliated companies and their respective logos on the entry door to the demised premises. Owner agrees that Tenant shall have the right to five (5) listings on the building's directory without charge.
    21. **Locks**. Tenant shall have the right to install new locks on the entry doors to the demised premises.
  22. **Freight Elevator**. Owner agrees that freight elevator service is available without charge during the building's operating hours. Tenant shall have the right to move into the demised premises during the building's operating hours without any freight elevator charge being imposed.
  23. **Real Estate Taxes**. Owner represents that the building is fully assessed and does not benefit from any tax abatement or similar program. Tenant shall only be required to contribute to Owner's cost of contesting real estate taxes to the extent that Owner is successful; provided that the amount of such contribution by Tenant shall not exceed the actual benefit received by Tenant.
  24. **Brokers**. In the 5<sup>th</sup> line of Article 46, after the word "agent", insert "who has dealt with Tenant (other than Owner/Kaufman Adler Realty Co.)". Owner agrees that it shall pay any commission owing to Kaufman/Adler Realty Co. with respect to this Lease.
    25. **Late Charge**. Article 52(A) is revised to reduce the late charge to four (4%) percent.
  26. **Holdover**. Article 55 is revised to reduce the per diem holdover rent to 150% of the per diem rent and additional rent payable under the Lease for the last year of the term.
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27. **Indemnification.** Articles 62 and 67 are revised to exclude consequential damages from Tenant's indemnity. The references to "counsel fees" in Article 62 shall be revised to read "reasonable counsel fees". On the tenth line of Article 62 after the words "demised premises" insert the words "by the Tenant".
28. **Local Laws.** Owner agrees that Tenant's maximum contribution obligation under Article 66 during the Lease term shall be \$2,500.00 provided that Tenant shall have no obligation to contribute to any expenses relating to ADA with respect to public/common areas of the building.
29. **Air Conditioning.** Owner represents that the demised premises has a new air conditioning unit serving only the demised premises which can be controlled solely by the Tenant. Owner shall be responsible for the maintenance and repair of the air conditioning unit during the first year of the Lease term. Thereafter, Tenant shall obtain and maintain the service contract provided for in Article 68(b). Provided that Tenant obtains and maintains the air conditioning service contract referenced above, Owner will be responsible for any replacement of the air conditioning unit should such unit fail.
30. **Tenant Stipulation.** Article 73(3) of the Lease shall be omitted. The notice provided for in Article 73(2) of the Lease shall be sent to the parties set forth in Paragraph 14 of this Additional Rider.

31. **Owner Insurance.** Article 79 of the Lease shall be omitted.

32. **Access Cards.** Owner shall provide Tenant with five (5) key access cards without charge.

33. **Right to Cancel.** Article 82 is revised to provide that Tenant shall have the right to cancel the Lease at any time during the last two (2) years of the Lease term (i.e.: commencing May 1, 2008) upon ninety (90) days prior written notice by Tenant to Owner. The parties agree that the unamortized amount of free rent and leasing commissions if the Lease is terminated effective May 1, 2008 is \$9,616.13; provided, however, that this amount shall reduce by the monthly amount of \$400.67 for each and every month following May 1, 2008. To illustrate, in the event that the Lease is terminated effective May 1, 2009, the amount of unamortized free rent and leasing commissions payable to Owner shall be \$4,808.07. In addition, in the event Tenant exercises its right to terminate the Lease pursuant to Article 82, Tenant agrees to forfeit its security deposit paid to Owner in the amount of \$18,668.24.

34. **Asbestos.** Owner represents and warrants to Tenant that the demised premises is free of asbestos. Within sixty (60) days of the date hereof, Owner will deliver to Tenant a Form ACP-5 confirming the foregoing.

35<sup>TH</sup> STREET ASSOCIATES

By:  
Name:  
Title:

GURUNET CORPORATION

By:  
Name:  
Title:

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

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

Date of report (Date of earliest event reported): May 10, 2005

**GuruNet Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation)

**1-32255**

(Commission File Number)

**98-0202855**

(IRS Employer Identification No.)

**Jerusalem Technology Park  
Building 98**

**Jerusalem, Israel 91481**

(Address of Principal Executive Offices)

**+972-2-649-5000**

(Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## **Item 2.02. Results of Operations and Financial Condition**

The following information, including Exhibit 99.1 attached hereto, is being furnished pursuant to this Item 2.02 and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

On May 10, 2005, GuruNet Corporation, a Delaware corporation (“**GuruNet**”), issued a press release discussing its financial results for its first quarter of 2005. A copy of the press release is furnished as Exhibit 99.1 to this report.

## **Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers**

On May 10, 2005, Michael Eisenberg - a director of GuruNet - voluntarily resigned from the Board of Directors of GuruNet (“**Board**”) for personal reasons. Following his resignation, Mr. Eisenberg also departs from GuruNet’s Compensation Committee, which remains comprised of two Board members.

In connection with Mr. Eisenberg's departure, the Board voted unanimously to accelerate the vesting of options to purchase 7,100 shares of GuruNet's common stock held by Mr. Eisenberg, representing approximately 25% of the options previously granted to him by the Board (which were originally scheduled to vest on June 23, 2005, the first anniversary of the date of grant), so that such options would become fully vested on May 10, 2005 and immediately exercisable.

On May 10, 2005, the Board, pursuant to its unanimous written consent, elected Larry Kramer a director of GuruNet to serve until the next annual meeting of the stockholders of GuruNet and/or until his successor has been duly elected and qualified.

A copy of the press release covering the foregoing changes in the Board’s composition is attached hereto as Exhibit 99.2

## **Item 9.01 Financial Statements and Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated May 10, 2005.
99.2	Press Release dated May 10, 2005.

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**SIGNATURES**

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

GURUNET CORPORATION

By: /s/ Steven Steinberg

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Steven Steinberg  
Chief Financial Officer

Dated: May 10, 2005

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**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated May 10, 2005.
99.2	Press Release dated May 10, 2005.

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**For Immediate Release**

**GuruNet Announces First Quarter 2005 Financial Results**

**GuruNet to Hold Investor Conference Call Today, May 10, 2005 at 1:00 PM EDT**

New York, NY, May 10, 2005 -- GuruNet Corporation (AMEX: GRU), a leading reference search engine, today announced its financial results for the first quarter of 2005, the first quarter since the Company changed its business model and released Answers.com, on January 3, 2005. The Company, through its Answers.com site, generates fees primarily from ads placed alongside its topic entries. Prior to the launch of Answers.com, the Company's primary means of generating revenue was from the subscription fees it charged for the use of its GuruNet premium product.

"We're pleased with our progress this year putting our company and flagship product, Answers.com, on the map," said Bob Rosenschein, GuruNet's founder and CEO. "We started by building up end-user traffic. In March, we implemented Google AdSense, and have begun to see ad revenues from these ads."

Revenues for the first quarter of 2005 were \$175,633, compared to \$19,631, for the same period in 2004, and compared to \$76,245, in the fourth quarter of 2004. The net loss in the first quarter of 2005 was \$1,504,924, compared to a net loss of \$1,692,712, for the same period in 2004, and compared to a net loss in the fourth quarter of 2004 of \$855,131. Net cash used in operations in the first quarter of 2005, and for the same period in 2004, was \$964,401 and \$806,551, respectively. The primary reasons for the difference between the net loss and the net cash used in operations in the first quarter of 2005 is that \$386,000 of operating expenses were the result of a non-cash charge for stock-based compensation expense, and various changes in our operating assets and liabilities.

Revenues in the first quarter of 2005 resulted from advertising revenues of approximately \$107,000, recognition of subscription license revenue (from subscriptions initiated prior to 2005) of approximately \$50,000, revenue from partners with whom we market co-branded products of approximately \$14,000 and other revenue of \$5,000. Prior to January 3, 2005, our primary source of revenue was selling subscriptions to the GuruNet product, the forerunner to Answers.com. "The launch of Answers.com, from a revenue perspective, was a multi-tiered process," said Steven Steinberg, GuruNet's CFO. "From launch date until the middle of January, we ran public service announcements on Answers.com and did not display any paid advertising. In the middle of January we began using and testing various advertising network providers. We reached an important milestone on February 28, 2005, when we began using Google's contextual AdSense advertising on our Answers.com information pages, as well as integrating Google search, with paid search advertising, into Answers.com. As a result of the multi-tiered launch, our January and February 2005 advertising revenue was approximately \$16,000, while March 2005 advertising revenue was approximately \$91,000."

In the first quarter of 2005, the Company also increased its liquidity and capital resources by entering into an agreement with certain holders of warrants that were issued by the Company in 2004, in connection with a bridge financing, pursuant to which such holders exercised an aggregate of 1,871,783 Bridge Warrants. As a result, the Company raised approximately \$12,225,000, net of costs relating to the exercise. Further, the Company raised

additional amounts, in excess of \$1 million, from other exercises of options and warrants during the quarter.

GuruNet will host a conference call today, Tuesday, May 10<sup>th</sup>, 2005, at 1:00 PM EDT, to discuss the results of its first quarter ended March 31, 2005, as well as to provide insight into Q2 trends to date, elaborate on recent events/announcements and company progress and highlight next steps. Bob Rosenschein and Steven Steinberg, will be making the presentation, which will be followed by a question and answer session. Investors will have the opportunity to listen to the conference call and the replay over the Internet through GuruNet's Website, within its Investor Relations page at <http://www.gurUNET.com/ir>. To listen to the live call via webcast, please go to our Website at least 10 minutes early to connect and register. To dial in to listen and/or submit a question, please dial **800-938-0653** and request the GuruNet call. For those unable to listen to the live broadcast, a replay will be available on the site shortly after the call, and will remain available on the site for a period of three weeks following the call.

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## About GuruNet

GuruNet Corporation (AMEX: **GRU**) operates Answers.com, a leading reference engine, [www.answers.com](http://www.answers.com). Founded in 1999 by Bob Rosenschein, GuruNet Corporation ([www.gurunet.com](http://www.gurunet.com)) provides patented technology and software tools to access concise information on demand. For additional information, visit [www.gurunet.com](http://www.gurunet.com).

## Cautionary Statement

Some of the statements included in this press release are forward-looking statements that involve a number of risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Important factors may cause our actual results to differ materially, including our inability to increase the number of persons who use our products and the number of partners who will generate increase traffic to our sites, and other risk factors identified from time to time in our SEC reports, including, but not limited to, our registration statement on Form SB-2 filed in April 2005. Any forward-looking statements set forth in this news release speak only as of the date of this news release. We do not intend to update any of these forward-looking statements to reflect events or circumstances that occur after the date hereof. This press release and prior releases are available at [www.gurunet.com](http://www.gurunet.com). The information in GuruNet's website is not incorporated by reference into this press release and is included as an inactive textual reference only.

(Tables to follow)

### Press Contact:

Jay Bailey  
Director, Communications  
GuruNet Corporation  
866-576-0352  
[ir@gurunet.com](mailto:ir@gurunet.com)

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**Selected Consolidated Financial Data (Unaudited)****Statements of Operations:**

	Three months ended March 31	
	2005 \$, Except share data (Unaudited)	2004 \$, Except share data (Unaudited)
Revenue	175,633	19,631
Cost of revenues	208,543	156,527
Gross margin	(32,910)	(136,896)
Operating expenses		
Research and development	330,469	263,788
Sales and marketing (1)	361,460	318,929
General and administrative (2)	851,615	212,407
Total operating expenses	1,543,544	795,124
Operating loss	(1,576,454)	(932,020)
Interest income (expense), net	85,907	(737,034)
Other income (expense), net	282	4,322
Loss before income taxes	(1,490,265)	(1,664,732)
Income taxes	(14,659)	(27,980)
Net loss	(1,504,924)	(1,692,712)
Basic and diluted net loss per common share	(0.25)	(1.33)
Weighted average shares used in computing basic and diluted net loss per common share	6,043,796	1,271,075

(1) Includes \$107,255 and \$5,236 of stock based compensation in 2005 and 2004, respectively

(2) Includes \$277,366 and \$11,522 of stock based compensation in 2005 and 2004, respectively

**Balance Sheets:**

The following table summarizes our balance sheet data:

	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
Cash and Investments	\$ 19,900,760	\$ 7,415,415
Working capital	\$ 19,538,974	\$ 6,688,721
Total assets	\$ 21,947,010	\$ 8,907,183
Long-term liabilities	\$ 1,103,694	\$ 1,078,548
Total stockholders' equity	\$ 19,689,771	\$ 6,824,122

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**For Immediate Release****Larry Kramer Joins GuruNet Board**

*Former MarketWatch CEO Adds Content Monetization Expertise*

**New York, NY - May 10, 2005** - GuruNet Corporation (AMEX: [GRU](#)), creator of the Answers.com reference-based search engine, announced today the appointment of Larry Kramer to its board of directors. Mr. Kramer serves as president of CBS Digital Media, overseeing content and sales of the network's disparate Web properties, including CBS.com, CBSNews.com, SportsLine.com and UPN.com. Formerly, Mr. Kramer was the founder, Chairman and CEO of MarketWatch, Inc. (NASDAQ: MKTW), which was recently acquired by Dow Jones & Company (NYSE: DJ).

"We are delighted to have someone of Larry's caliber joining our board," said Bob Rosenschein, founder and CEO of GuruNet. "His contributions to digital content speak for themselves, and his success creating monetization strategies will be a real asset to our team as we focus on revenue growth."

"Answers.com has impressed the industry with its novel approach to supplying immediate answers and giving the kind of context that traditional search engines can't provide," explained Kramer. "Watching their rapid growth, I've been intrigued by the tremendous potential and excited to be part of their development."

Mr. Kramer proposed the creation of a joint venture between Data Broadcasting Corp. and CBS and led CBS MarketWatch through its launch in October 1997. He also managed the company through its successful IPO in January 1999, three acquisitions and the ultimate sale of the company to Dow Jones in January, 2005 for approximately \$520 million in cash.

Mr. Kramer spent more than 20 years in journalism as a reporter and editor. In 2000, he appeared on the list of the 100 most influential business journalists of the 20th century. In 2004 he was awarded the Editor & Publisher Magazine annual lifetime "EPY" award for "Outstanding Individual Achievement." Mr. Kramer was a founding board member of the Online Publishers Association in 2001. He was elected Chairman of the Board of Directors of OPA in 2004 and re-elected for a second one-year term for 2005.

Larry Kramer replaces Michael Eisenberg, of Israel Seed Partners, who is voluntarily stepping down from the board for personal reasons. Mr. Eisenberg's resignation and departure from the board and its Compensation Committee, became effective today,

**About GuruNet**

GuruNet Corporation (AMEX: [GRU](#)) operates Answers.com ([www.answers.com](http://www.answers.com)), a leading reference engine. Founded in 1999 by Bob Rosenschein, GuruNet Corporation ([www.gurunet.com](http://www.gurunet.com)) provides patented technology and software tools to access concise information on demand. For additional information, visit [www.gurunet.com](http://www.gurunet.com).

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 8-K**

**CURRENT REPORT**

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

Date of report (Date of earliest event reported): May 10, 2005

**GuruNet Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation)

**1-32255**

(Commission File Number)

**98-0202855**

(IRS Employer Identification No.)

**Jerusalem Technology Park**

**Building 98**

**Jerusalem, Israel 91481**

(Address of Principal Executive Offices)

**+972-2-649-5000**

(Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 2.02 Results of Operations and Financial Condition**

On May 10, 2005, GuruNet Corporation announced its financial results for the quarter ended March 31, 2005. A copy of the script from the conference call announcing the results is attached to this report as Exhibit 99.1.

The information in this report and the exhibit attached hereto shall not be deemed “filed” for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly stated by specific reference in such filing.

**Item 9.01 Financial Statements and Exhibits**

- (c)  
99.1                 Script of conference call held on May 10, 2005, reporting financial results for the quarter ended March 31, 2005.
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**SIGNATURES**

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

GURUNET CORPORATION

By: /s/ Steven Steinberg

\_\_\_\_\_  
Steven Steinberg  
Chief Financial Officer

Dated: May 10, 2005

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**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Script of conference call held on May 10, 2005, reporting financial results for the quarter ended March 31, 2005

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*- GuruNet Corporation 1<sup>st</sup> Quarter 2005 Conference Call -*

**GuruNet Corporation**  
**1<sup>st</sup> Quarter 2005 Conference Call**  
**1:01PM EDT, May 10, 2005**

*Opening (Communiqué Operator)*

Welcome to the GuruNet 1st quarter conference call. Introducing the call will be Landon Barretto, from the investor relations firm Barretto-Pacific. Landon, you may begin.

*Landon Barretto*

Good afternoon my name is Landon Barretto, and I'll be the moderator for today's presentation, which is also being broadcast over the web and can be accessed from the Investor Center page at [www.gurUNET.com](http://www.gurUNET.com). A replay of this presentation will be available at the site for the next three weeks.

Thank you for your interest in GuruNet Corporation. With me today is the Chairman and Chief Executive Officer of GuruNet, Bob Rosenschein, and the Chief Financial Officer Steve Steinberg. At the conclusion of their prepared remarks, we'll open the conference for questions.

We would like to remind you that during the course of this conference call GuruNet's management will make forward-looking statements, including predictions and estimates that involve a number of risks and uncertainties. Actual results may differ materially from any future performance suggested in the Company's forward-looking statements. We refer you to the Company's SEC filings, including its annual report on Form 10-KSB and its most recent registration statement on Form SB-2 for important risk factors that could cause actual results to differ materially from those contained in any forward looking statement.

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*- GuruNet Corporation 1<sup>st</sup> Quarter 2005 Conference Call -*

Forward-looking statements made during today's call are only made as of the date of this conference call and the company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Throughout this call GuruNet will be referring to its GAAP financial results as well as non-GAAP measures. These non-GAAP measures are not in accordance with, or an alternative to, GAAP financial measures and may be different from pro forma measures used by other companies.

And now, I'd like to turn the call over to Bob Rosenschein. Bob...

***Bob Rosenschein***

Thank you, Landon.

Welcome to GuruNet's 1<sup>st</sup> Quarter conference call, and thank you for joining us. I'm very pleased today to update you on our progress in Q1... and also share some Q2 trends to date.

The agenda for our call today will be:

- First, introductory remarks on our progress.
- Second, our CFO, Steve Steinberg will present some financial highlights. Also see our press release, sent out before the call and posted on our site.
  - Third, we have a significant announcement for you about our board of directors.
- Fourth, we'll take a deeper look into our business, including some of our metrics and Q2 progress to date. We'll also be discussing deals, marketing, our NY office, press, Mobile Answers, etc.
  - Last, we'll end the call with a Q&A session, starting with some of the questions we've received in advance.

- GuruNet Corporation 1<sup>st</sup> Quarter 2005 Conference Call -

We're obviously proud about putting Answers.com on the map. In just four months since launching it and our new business model, we've been fortunate to enjoy some positive press and partnerships and—more importantly—significant traffic growth.

*We're putting the foundation in place to make GuruNet a long-lasting, profitable enterprise.* We offer a highly differentiated service that taps a large marketplace opportunity; we established a large and growing user base; we embedded a monetization engine for generating revenue; and we are implementing a strategy that we think will help us exploit the full economic potential of our service.

The past four months represent an exciting landmark period for GuruNet:

1. It surpassed our own expectations to already be winning awards, as in PC Magazine and Forbes, and mentioned regularly with Google, Yahoo, Ask Jeeves, MSN and other industry leaders in print and on the Web, TV and radio.
2. It was a nice bonus to be called the “Answer Engine Leader” recently in the NY Times, and singled out in the Motley Fool and several times on CBS MarketWatch.
3. We were particularly proud recently to reach an average of 2 million queries per weekday— and to have bloggers and reporters embrace the site so quickly.

So we are very pleased where we are in terms of traffic and PR. Now we are working hard on building up GuruNet's monetization potential. In March, we first released our initial Google AdSense implementation. We are analyzing its progress and adjusting the design elements on the site, to steadily improve its performance: both in terms of user satisfaction and on the financial front.

- GuruNet Corporation 1<sup>st</sup> Quarter 2005 Conference Call -

Users do appear to be “*getting it*”, and I think that few people who try the product need to be convinced of our simple value proposition to Internet users. For GuruNet, the road map is straightforward: ***first traffic, then revenues, then profits.***

The first rule of marketing is to be different; I would add, of course, *useful* and *different*. But there’s something that our investors need to grasp: we are not a traditional search engine. That is at once our promise and differentiation, but at the same time also our challenge. It is convenient for us to participate in this exciting search space. Who doesn’t like to be mentioned in Fortune as possibly the next Google?

However... what we do is *not* what a search engine does. Our very promise to end users—more relevant information, with less noise, in fewer clicks—makes it a different monetization animal. That means that you should *not* assume that we plaster our results pages with the exact same format ads as search engines do. Nor should you assume that click-through rates will be comparable. We are betting that enough users will prefer the streamlined approach that we offer to provide the volumes and revenues we need to compete and succeed.

Let me now introduce Steve Steinberg, our CFO. After his remarks, I’ll return to talk about specific recent developments and some interesting news.

***Steve Steinberg***

Thank you, Bob. My objective for this portion of the call is to provide you with highlights of our financial performance for the first quarter of 2005. For a more detailed review of our financial performance during the quarter, please review our financial statements and MD&A, which will be included in our SEC FORM 10-QSB, which will be filed no later than next Monday, May 16th.

- GuruNet Corporation 1<sup>st</sup> Quarter 2005 Conference Call -

As most of you know, on January 3, 2005 we announced the release of Answers.com. Our primary revenue model for Answers.com is advertising revenue. When a user searches sponsored keywords, a link to an advertiser's Website is displayed in a premium position and identified as a sponsored result to the search. The key business metrics that will drive Answers.com's revenues will be the volume of traffic we receive and how well we monetize that traffic.

In contrast, prior to January 2005, we were primarily in the business of selling subscriptions. A desire to gain more expansive, ubiquitous growth led to the launch of our free-to-consumer product, Answers.com, in January 2005. As we discuss our Q-1 2005 results, in comparison to our Q-1 2004 results, please bear in mind the change in our business model that transpired in January 2005.

**Let's begin with our Consolidated Statement of Operations**

Revenues in the first quarter of 2005 were \$176,000 compared to \$20,000 during the same period in 2004, an increase of \$156,000. Revenues in the first quarter of 2005 resulted from advertising revenues of \$107,000, recognition of subscription license revenue of \$50,000, revenue from partners with whom we market co-branded products of \$14,000 and other revenue of approximately \$5,000. In contrast, revenues in the first quarter of 2004 resulted from recognition of subscription license revenue of \$14,000, maintenance contracts on our corporate enterprise software of approximately \$5,000 and advertising revenue of \$500.

The launch of Answers.com, from a revenue perspective, was a multi-tiered process. From launch date until the middle of January, we ran public service announcements on Answers.com and did not display any advertising. In the middle of January, we began testing various advertising network providers. We reached an important milestone on February 28, when we began using Google's contextual AdSense advertising on our Answers.com information pages, as well as integrating Google search, ***with paid search advertising***, into Answers.com. As a result of the multi-tiered launch, our January and February 2005 advertising revenues were approximately \$16,000, while our March 2005 advertising revenue jumped to approximately \$91,000.

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The public's reception of Answers.com, has, in our opinion, been impressive, and we're pleased with the growth in traffic since our launch. Nonetheless, we are certainly still in the initial stages of executing on our monetization plan. Based on our preliminary revenue reports, we expect that our average daily ad revenue in April 2005 will approximate our average daily ad revenue in March 2005. Later in the call, Bob will discuss some of the initial positive signs we've seen regarding May 2005, to date.

**Now... let's move on to Operating Costs.** The salaries, benefits and overhead costs of personnel, and other operating costs relating to research and development, sales and marketing, and general and administrative activities comprise our operating expenses. Operating expenses in the first quarter of 2005 were \$1,544,000, an increase of \$749,000 over the same period in 2004. The increase in operating expenses stems from a number of factors, including:

- Compensation-related increases due to personnel expansion to develop our newest products and to begin building a public company infrastructure, and due to salary increases.
- Other increases - mostly - directly or indirectly - due to building a public company infrastructure. For example, our legal and accounting costs increased by approximately \$185,000, due to a number of factors, including the numerous SEC filings that were necessitated, for example the registration statement on Form SB-2 we recently filed to register the shares underlying the new warrants we issued in February 2005. Expenses also rose due to increases in director fees and expenses of approximately \$40,000; and increases in our insurance costs of approximately \$30,000. We also recorded, in this quarter, a \$250,000 charge relating to investment banking fees - \$225,000 of such amount, in the form of non-cash stock-based compensation.

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**Let's move down to the Net Loss.** The net loss in the first quarter of 2005 was \$1,505,000, compared to a net loss of \$1,693,000, for the same period in 2004. However, net cash used in operations in the first quarter of 2005, and for the same period in 2004, was \$964,000 and \$807,000, respectively. The primary reason for the difference between the *net loss* and the *net cash* used in operations in the first quarter of 2005 is that approximately \$386,000 of our operating expenses, in the first quarter of 2005, were the result of non-cash, stock-based compensation.

**Now, let's review some summary balance sheet data**

As of March 31, 2005, we had \$21.9 million of assets including \$19.9 million in cash and cash equivalents and investment securities. Our working capital was \$19.5 million, and we had shareholder equity of \$19.7 million.

**Bottom line** - as a result of the IPO and our fundraising activities in Q-1 2005, we now have sufficient resources to permit us to meet our current planned operating needs and move Answers.com forward.

Thank you for your time. And now...back to you, Bob...

***Bob Rosenschein***

Thanks, Steve. I'd like to open this part of the conference call by sharing some very good news about GuruNet's board of directors. I couldn't be more pleased to announce that Larry Kramer is joining our board. Larry founded and ran MarketWatch, which was sold recently to Dow Jones for a over \$500M dollars. He also just joined the Viacom family and now is President of CBS Digital Media, which oversees content and sales of the network's disparate Web properties, including CBS.com, CBSNews.com, SportsLine.com and UPN.com.

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We're obviously proud to be associated with him, but over and above prestige and connections, the major benefit Larry Kramer brings to GuruNet is his knowledge of the industry and how to monetize effectively.

Larry replaces Michael Eisenberg, of Israel Seed Partners, who is stepping down for personal reasons. Let me take this opportunity to personally thank Michael for his outstanding effort and contribution to GuruNet.

Now I'd like to cover some other topics.

We certainly are fortunate to own the domain Answers.com; it really has helped us get across the value proposition of *answers, not links*. Aside from name recognition, the most useful benefit of all the press we've been receiving has been that it helps us understand *how people see us* - which parts of our offering resonate, what brings people back to our site, and how Answers.com fills a gap that people have come to recognize.

For newcomers on the call, I'll briefly review GuruNet's mission, which is — ***to deliver concise information in one click on anything, anywhere.***

We *provide the real information you're searching for*, in contrast to the long lists of links to Web pages provided by search engines, which may or may not contain the information you're seeking. *Answers.com* gives you quick explanations smartly integrated from more than 100 different reference resources. We offer *a very broad range of topics*, from people, places and things to health topics to information on companies to products and services, and much, much more.

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And, on Windows and Macintosh, *you can also access Answers.com* while using *any computer program*, using our patented 1-Click Answers tool, (for example in a Word document or in an email) and now even on the go (using our new Mobile Answers platform).

If any of you hasn't tried our product yet, please try it at [www.answers.com](http://www.answers.com). It's always been easier to demonstrate than to explain on the phone. But try looking up a public company, like Apple Computer; or a celebrity, such as Warren Buffett or Jimmy Buffett, for that matter; or maybe just your hometown, and notice the difference between *answers* and *searches*.

Let's turn now to our business model which, like our service, is straightforward yet powerful. It has two components:

- *First, our service is now free to users.* As Mark Cuban mentioned in a recent edition of Barron's, the subscription service was not producing enough for us, and we did make the right move shifting away from it in January. We have increased our user base in several ways, including public relations, word of mouth, our 1-Click Answers tool, Search Engine Optimization, and through relationships with search engines (such as Google) and others sites.
- *Second, we earn revenue primarily when users click on relevant sponsored links that we place along our information content.* Additional future revenue sources may include sponsorship of Answers.com categories and commerce commissions on goods, services and even premium content.

Those are the basics — now on to our growth strategy for the future:

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1. *Our first priority is the continuous improvement of our service.* We are not standing still on our core technology in content aggregation, processing, and presentation. The dual goals are both improving the user experience and, importantly, raising competitive barriers. Since we announced our Answers.com offering in January, we have added a mobile offering, Mobile Answers. We have enhanced the stickiness of Answers.com through more prominent branding and a recently added taxonomy that showcases our wide content range. And we have improved our 1-Click Answers product, adding Firefox functionality for that growing market.
2. *The second goal is the continued expansion of our user base.* We have achieved what we consider an impressive mass of users through success to date with PR efforts; word of mouth; through significant traffic sent to us from search engines, primarily Google, and other sites; and through repeat usage. I'll provide more detail on our progress during Q2 in a few minutes. We continue to work on pipeline distribution deals. And we are also evaluating new initiatives designed to bring our differentiated and concise information *even more readily* to users across the Web.
3. *The third growth engine is monetization of user visits.* We have put into place our primary monetization mechanism in March, which is positioning relevant sponsored links alongside content in our Web offering. Even if we don't have information on your topic, we save you a step and show you Google results on the spot - with monetized ads there as well. Our ongoing task is to analyze the performance of these ads and improve their revenue potential.
4. *The fourth critical prong, which we are just beginning to rev up , is to expand Answers.com's category range.* Under the direction of our new Chief Revenue Officer, Jeff Cutler, we are embarking on an aggressive program to add new, highly commercially-oriented categories of information to Answers.com. We will be providing "concise information in one click" in a range of new areas which we believe have relatively high click-through rates to sponsored links and relatively high associated CPC's or cost per clicks. We will encourage users to try out these categories by promoting them actively on our service. Last, we'll be looking to add revenue driving content that sits not alongside the text, but is integrated into it for a more direct push to the user. Our new Shopping.com partnership is an excellent example of that, and we'll talk about that in a moment.

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On May 1, we rolled out a modified design for Answers.com that features more prominent branding and that showcases the breadth of our content offering on every page. We tested it on a portion of our users, to see what works best. This is commonly referred to as A/B testing, and it is very useful to tune sites for performance, based on monitoring empirical user behavior. You test, choose the winner and repeat.

Now let's talk about some of our metrics and statistics, including data from the first part of Q2.

- Traffic — our average daily query counts in January through April were January - 220,000. February - 1,150,000, March - 1,550,000, April - 1,790,000. April was 2.0M on weekdays and 1.79M, if you include Saturdays and Sundays, when usage is usually lower. Now, if you just look at May through yesterday, that average actually rose to 2.1M on weekdays. These are unaudited internal indicators. It goes without saying that any number of factors can also impact these metrics in the future. Also, we've seen our changes sometimes come in spurts; it's not always linear.
- Revenues - based on the new design that we A/B tested and which you can now see on our site, I am pleased to share with you that May average daily ad revenue has shown over a 20% increase over March average daily ad revenue. And this improvement includes the A/B test period, when some users were seeing the old version.

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These metrics are our goalposts in the coming months, as we work to improve the performance with each one.

On to deals. Jeff Cutler, our newly hired Chief Revenue Officer, has been coming up to speed. Between the deals in progress that he's taken the lead on since his arrival, and the new ones he is developing with his own Rolodex, he's moving forward. We're glad to share with you that we are in the *contractstage* with a number of parties.

As you may have seen earlier today, we have just signed a partnership agreement with Shopping.com, which allows us to offer Answers.com users integrated product information and price comparisons. Whether site visitors are seeking information on clothing, electronics, jewelry, tools, books, or items in many other consumer product categories, the new arrangement enables them to identify, research, compare, and purchase products as part of their quest for answers.

There are two things that are exciting about this deal. First, it helps us broaden our scope, supplementing our reference-based content. As users realize that they can find answers about products as well as encyclopedic facts, it will encourage them to use us as a one-stop shop.

In addition, the Shopping.com content will become tightly integrated with the central content of the page, as opposed to the side columns that may not be as prominent. We're excited by the scope of reviews and comparison shopping we will be including, as well as the substantial list of products that will now become Answers.com topics. This should be up and running sometime this summer.

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What else is in the pipeline? We are currently in talks at various stages with media sites, search engines, mobile device manufacturers, as well as advertising and content companies. As I said earlier, we look forward to sharing some of these with you in the coming weeks.

In addition, Jeff is setting up our New York office on W. 35<sup>th</sup> Street, and interviewing candidates for a team to assist him in driving business development.

I also want to update you about Accoona.com, the deal we signed in mid-March. Like the Google definitions link that points to us, Accoona is a search engine, that will be sending us definition-based traffic when it's users prefer a short explanation to links. Implementation is moving forward, and we're excited about the way they will be offering Answers.com's content to their users. We hope to see the live implementation by the summer and hope for a healthy boost in traffic and revenues from that arrangement.

The Education sector. Gauging by our fan mail, we seem to be generating considerable excitement in the education sector, a fantastic sector for Answers.com. Teachers, parents and students see the value, and are often quick to share it with the people around them. We're going to be pursuing this area in a number of ways. First, we will be attending NECC, the National Education and Computing Conference in June in Philadelphia. The conference brings together thousands of tech-oriented educators, looking for new, innovative tools to bring back to their school systems.

Second, our PR agency had begun targeting publications that focus on education as well as college newspapers, in an effort to get the word out in print. We've also begun marketing directly to students, giving away T-shirts at Rutgers University a few weeks back. Once we study the effect of this activity, we may broaden it to other campuses.

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*- GuruNet Corporation 1<sup>st</sup> Quarter 2005 Conference Call -*

Last, I'm pleased to be speaking at four outstanding conferences in the next two weeks: Thomas Weisel Partners, JP Morgan, Goldman Sachs, and the NY Society of Security Analysts. For details and web-cast, please visit our web site. The audiences will be analysts and institutional investors, and I look forward to sharing our excitement and progress with them as I have with you today.

I'd like to sum it up. As promised, we concentrated first on launching Answers.com and building traffic. That effort will continue. Now we are focusing on enhancing our monetizable content and revenues, based on that traffic and those "eyeballs".

We have a product that is simple, great for kids and students - of all ages - and saves real people time and frustration. And is being recognized widely as such. We are *not* a search engine. Answers.com is a new kind of information tool that enhances the Internet and Web experience. And it is that growth that we hope returns long-term shareholder value. Thank you.

I'd like to add that we work hard to be responsive to investors. Please see our corporate Website, [www.gurUNET.com](http://www.gurUNET.com), and you can communicate with us at [ir@gurUNET.com](mailto:ir@gurUNET.com).

I would like to call your attention to a slight error in the preliminary remarks made by Landon Barretto. In this presentation, GuruNet DID NOT refer to non-GAAP measures.

That ends our remarks. We'll be very pleased now to answer some questions.

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Before we take the live calls, I'd like to answer a few questions that some of you have sent in, in advance:

1) Can you give some concrete guidance for the remainder of Q2?

As I hope we've made clear, we continue to test design elements and analyze our users' behavior to determine which elements to add, remove, or change. We'll act on those results and test again. It would be irresponsible for me to predict what's going to happen in tomorrow's experiments, or what numbers we exactly will reach.

Q: What's your current expense rate and do you expect it to grow?

In Q-1 2005 we incurred \$1,752,000 in expenses (meaning cost of revenues and operating expenses as appear on the Q-1 2005 Statement of Operations). This amounts to approximately \$585,000 per month. Approximately \$375,000 of the Q-1 expenses are non-cash, stock based compensation to our investment banker, IR firm and a strategic marketing consultant. Excluding those amounts, our average monthly expenses would have been \$460,000 in Q1. We do expect our expense rate to rise in the course of 2005.

Q: Are you generating revenues from Mobile Answers?

Mobile Answers (mobile.answers.com) does not directly feed revenues at this initial stage, rather, it is currently being used as a marketing tool, for branding purposes. We recognize that wireless-based advertising is in its infancy; you can't integrate contextual link ads into the Mobile version because they will mostly point to non-mobile-friendly sites. That said, we are looking into revenue opportunities for this platform.

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Q: Are you considering moving to NASDAQ?

We are taking the question seriously, and it is being considered at the board level.

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

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 001-32255

GURUNET 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.)

Jerusalem Technology Park  
Building 98  
Jerusalem 91481 Israel

(ADDRESS INCLUDING ZIP CODE OF PRINCIPAL EXECUTIVE OFFICES)

+972-2-649-5123

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by an (X) 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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o NO x  
Indicate by an (X) whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yeso  
NO x

As of May 10, 2005, the registrant had outstanding 6,945,292 shares of Common Stock, \$0.001 par value per share.

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PART I. FINANCIAL INFORMATION<sup>2</sup>

## Item 1. Financial Statements

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**Cautionary Note regarding Forward-Looking Statements**

In addition to historical information, this Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words “believe,” “expect,” “will,” “anticipate,” “intend,” “estimate,” “project,” “assume” or other similar expressions, although not all forward-looking statements contain these identifying words. All statements in this report regarding our future strategy, future operations, projected financial position, estimated future revenues, projected costs, future prospects, and results that might be obtained by pursuing management’s current plans and objectives are forward-looking statements. You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements

are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our stockholders. Many important factors that could cause such a difference are described in our most recent registration statement on Form SB-2 under the captions “Competition,” “Proprietary Rights” and “Risk Factors,” all of which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this report.

**Consolidated Financial Statements as of March 31, 2005**

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GuruNet Corporation (Formerly Atomica Corporation)  
and Subsidiary  
(A Development Stage Enterprise)

## Consolidated Balance Sheets

	March 31 2005 \$ (Unaudited)	December 31 2004 \$ (Audited)
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	3,050,760	1,565,415
Investment securities	16,850,000	5,850,000
Receivables	143,642	18,145
Prepaid expenses	648,117	259,674
<b>Total current assets</b>	<b>20,692,519</b>	<b>7,693,234</b>
<b>Long-term deposits (restricted)</b>	<b>192,493</b>	<b>167,304</b>
<b>Deposits in respect of employee severance obligations</b>	<b>482,621</b>	<b>462,735</b>
<b>Property and equipment, net</b>	<b>322,691</b>	<b>305,804</b>
<b>Other assets:</b>		
Intangible assets, net	103,982	111,289
Prepaid expenses, long-term	134,670	147,000
Deferred tax asset, long-term	18,034	19,817
<b>Total other assets</b>	<b>256,686</b>	<b>278,106</b>
<b>Total assets</b>	<b>21,947,010</b>	<b>8,907,183</b>

See accompanying notes to the unaudited consolidated financial statements.



GuruNet Corporation (Formerly Atomica Corporation)  
and Subsidiary  
(A Development Stage Enterprise)

**Consolidated Balance Sheets**

	<b>March 31</b>	<b>December</b>
	<b>2005</b>	<b>31</b>
	\$	\$
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	359,266	172,029
Accrued expenses	433,815	422,465
Accrued compensation	246,805	259,872
Deferred revenues, short-term	113,659	150,147
<b>Total current liabilities</b>	<b>1,153,545</b>	<b>1,004,513</b>
<b>Long-term liabilities:</b>		
Liability in respect of employee severance obligations	560,651	531,224
Deferred tax liability, long-term	104,666	94,965
Deferred revenues, long-term	438,377	452,359
<b>Total long-term liabilities</b>	<b>1,103,694</b>	<b>1,078,548</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock: \$0.01 par value; 1,000,000 shares authorized and 0 shares issued as of March 31, 2005 and December 31, 2004	—	—
Common stock; \$0.001 par value; 30,000,000 shares authorized as of March 31, 2005 and December 31, 2004; 6,945,292 and 4,920,551 shares issued and outstanding as of March 31, 2005 and December 31, 2004, respectively	6,946	4,921
Additional paid-in capital	61,988,788	47,488,072
Deferred compensation	(177,504)	(45,146)
Accumulated other comprehensive loss	(27,418)	(27,608)

Deficit accumulated during development stage	<b>(42,101,041)</b>	(40,596,117)
<b>Total stockholders' equity</b>	<b>19,689,771</b>	6,824,122
<b>Total liabilities and stockholders' equity</b>	<b>21,947,010</b>	8,907,183

See accompanying notes to the unaudited consolidated financial statements.

GuruNet Corporation (Formerly Atomica Corporation)  
and Subsidiary  
(A Development Stage Enterprise)

## Consolidated Statements of Operations

	Three months ended March 31		Cumulative from December 22, 1998 (inception) through March 31, 2005
	2005	2004	
	\$, except share data (Unaudited)	\$, except share data (Unaudited)	\$, except share data (Unaudited)
<b>Revenue</b>	<b>175,633</b>	19,631	1,597,430
Cost of revenues	<b>208,543</b>	156,527	3,760,311
<b>Gross margin</b>	<b>(32,910)</b>	(136,896)	(2,162,881)
<b>Operating expenses</b>			
Research and development	<b>330,469</b>	263,788	18,909,579
Sales and marketing <sup>(1)</sup>	<b>361,460</b>	318,929	9,942,502
General and administrative <sup>(2)</sup>	<b>851,615</b>	212,407	8,366,400
Loss in connection with shut-down of operations	—	—	1,048,446
<b>Total operating expenses</b>	<b>1,543,544</b>	795,124	38,266,927
<b>Operating loss</b>	<b>(1,576,454)</b>	(932,020)	(40,429,808)
Interest income (expense), net	<b>85,907</b>	(737,034)	(2,488,958)
Gain on extinguishment of debt	—	—	1,493,445
Other income (expense), net	<b>282</b>	4,322	(585,913)
<b>Loss before income taxes</b>	<b>(1,490,265)</b>	(1,664,732)	(42,011,234)
Income taxes	<b>(14,659)</b>	(27,980)	(89,807)
<b>Net loss</b>	<b>(1,504,924)</b>	(1,692,712)	(42,101,041)
<b>Basic and diluted net loss per common share</b>	<b>(0.25)</b>	(1.33)	(25.35)
<b>Weighted average shares used in computing basic and diluted net loss per common share</b>	<b>6,043,796</b>	1,271,075	1,661,035



- (1) Includes \$107,255 and \$5,236 of stock based compensation in the three months ended March 31, 2005 and 2004, respectively.
- (2) Includes \$277,366 and \$11,522 of stock based compensation in the three months ended March 31, 2005 and 2004, respectively.

See accompanying notes to the unaudited consolidated financial statements.

GuruNet Corporation (Formerly Atomica Corporation)  
and Subsidiary  
(A Development Stage Enterprise)

**Consolidated Statements of Cash Flows**

	Three months ended March 31		Cumulative from December 22, 1998 (inception) through March 31, 2005
	2005	2004	2005
	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)
<b>Cash flows from operating activities:</b>			
<b>Net loss</b>	<b>(1,504,924)</b>	(1,692,712)	(42,101,041)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation and amortization	40,559	37,916	2,252,614
Loss on sale and write off of property and equipment in connection with shut-down of operations	—	—	780,475
Other loss on sale and write off of property and equipment	—	—	549,802
Settlement of obligations for other than cash	—	—	225,589
Increase (decrease) in liability in respect of employee severance obligations, net	9,541	(7,121)	78,030
Deferred income taxes	11,484	27,980	86,632
Stock issued for domain name	—	—	1,500
Issuance of common stock, stock options and warrants to non-employees for services rendered	375,901	9,087	598,505
Revaluation of options issued to non-employees for services rendered	—	—	(42,789)
Amortization of deferred compensation	9,994	8,780	125,203
Accrued interest on promissory notes	—	65,155	—
Amortization of deferred charges relating to convertible promissory notes	—	126,958	889,983
Amortization of discounts on promissory notes	—	547,502	1,577,373
Exchange rate differences	78	(7,324)	11,824
<b>Changes in operating assets and liabilities:</b>			
Increase in accounts receivable and other current assets	(54,414)	(111,054)	(330,677)
Decrease (increase) in long-term prepaid expenses	12,330	—	(134,670)
Increase in accounts payable	187,237	126,845	359,266
(Decrease) increase in accrued expenses and other current liabilities	(1,717)	31,884	692,304
(Decrease) increase in short-term deferred revenues	(36,488)	29,553	113,659
(Decrease) increase in long-term deferred revenues	(13,982)	—	438,377
<b>Net cash used in operating activities</b>	<b>(964,401)</b>	(806,551)	(33,828,041)
<b>Cash flows from investing activities:</b>			
Capital expenditures	(50,139)	(2,736)	(4,163,040)

Proceeds from sales of property and equipment		—	54,415
Purchase of intangible assets	—	(80,200)	(119,936)
Decrease (increase) in long-term deposits	(25,189)	3,415	(185,626)
Purchases of investment securities	(13,250,000)	—	(19,100,000)
Proceeds from sales of investment securities	2,250,000	—	2,250,000
Other	190	—	—
<b>Net cash used in investing activities</b>	<b>(11,075,138)</b>	<b>(79,521)</b>	<b>(21,264,187)</b>
<b>Cash flows from financing activities:</b>			
Repayment of loan	—	—	(20,000)
Proceeds from loan	—	—	6,500
Proceeds from issuance of convertible preferred stock, net of \$130,697 issuance costs	—	—	32,669,303
Proceeds from issuance of common stock, net of issuance costs	—	(290,732)	10,843,790
Proceeds from issuance of promissory notes, net of issuance costs	—	4,278,490	4,323,373
Repayment of convertible promissory notes	—	—	(3,160,000)
Exercise of common stock options and warrants, net of \$338,162 issuance costs	13,524,962	—	13,525,962
<b>Net cash provided by financing activities</b>	<b>13,524,962</b>	<b>3,987,758</b>	<b>58,188,928</b>
Effect of exchange rate changes on cash and cash equivalents	(78)	7,324	(45,940)
<b>Net increase in cash and cash equivalents</b>	<b>1,485,345</b>	<b>3,109,010</b>	<b>3,050,760</b>
Cash and cash equivalents at beginning of period	1,565,415	123,752	—
<b>Cash and cash equivalents at end of period</b>	<b>3,050,760</b>	<b>3,232,762</b>	<b>3,050,760</b>

See accompanying notes to the (unaudited) consolidated financial statements.

GuruNet Corporation (Formerly Atomica Corporation)  
and Subsidiary  
(A Development Stage Enterprise)

**Consolidated Statements of Cash Flows (cont'd)**


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	<b>Three months ended March 31</b>		<b>Cumulative from December 22, 1998 (inception) through March 31, 2005</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>
	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)
<b>Supplemental disclosures of cash flow information:</b>			
Income taxes paid	3,175	1,804	94,766
<b>Non-cash investing and financing activities:</b>			
Stock issued for domain name	—	—	1,500
Issuance of common stock in lieu of loan repayments	—	—	6,500
Common stock issued in exchange for notes receivable	—	—	1,842,900
Repurchase of stockholders' common stock and cancellation of notes receivable	—	—	(1,842,900)
Amortization of deferred charges relating to warrants	—	147,080	147,080
Discount on convertible promissory notes	—	—	1,577,373
Conversion of convertible promissory notes into common stock	—	—	1,840,000
Issuance costs related to the converted promissory notes	—	—	134,255

See accompanying notes to the (unaudited) consolidated financial statements.

GuruNet Corporation (Formerly Atomica Corporation)  
and Subsidiary  
(A Development Stage Enterprise)

Notes to the Unaudited Consolidated Financial Statements as of March 31, 2005

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**Note 1 - Business**

GuruNet Corporation (“the Parent”), formerly Atomica Corporation (a Development Stage Enterprise), was founded as a Texas corporation on December 22, 1998, and reorganized as a Delaware corporation in April 1999. On December 27, 1998 the Parent formed a subsidiary (“the Subsidiary”) based in Israel, primarily for the purpose of providing research and development services to the Parent. GuruNet Corporation and the Subsidiary are collectively referred to as “the Company”. The Company develops, markets and sells technology that intelligently and automatically integrates and retrieves information from disparate sources and delivers the result in a single consolidated view.

Prior to 2003, the Company focused primarily on enterprise systems for corporate customers and large organizations. Beginning in 2003, the Company’s primary product has been its consumer product, which, in 2003 and 2004, was sold to subscribers who paid the Company on a lifetime or annual basis. In January 2005, the Company introduced a free-to-customer product, containing practically all the content that it used to sell via subscriptions and ceased selling subscriptions to individual consumers. The Company plans to generate advertising revenue from the free-to-customer product. Notwithstanding, customers who purchased subscriptions prior to January 2005 will continue to be fully supported through the subscription periods.

As the Company has not yet earned significant revenue from its operations, it considers itself a development stage enterprise, as defined under Statement of Financial Accounting Standards No. 7, “*Accounting and Reporting by Development Stage Enterprises*”.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-QSB and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. All adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair presentation of the financial statements have been included. Nevertheless, these financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-KSB for the year ended December 31, 2004. The results of operations for the period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period

**Note 2 - Revenue Recognition**

The Company generates advertising revenues through pay-per-click keyword advertising. When a user searches sponsored keywords, an advertiser’s Website is displayed in a premium position and identified as a sponsored result to the search. Generally, the Company does not contract directly with advertisers, but rather, obtains those advertisers through the efforts of a third party that locates advertisers seeking to display sponsored links in our product. The third party is obligated to pay the Company a portion of the revenue it receives from advertisers, as compensation for the Company’s sale of promotional space on its Internet properties. Amounts received from such third parties are reflected as revenue on the accompanying statement of operations in the period in which such advertising services were provided.

The Company continues to recognize revenues generated from subscriptions that were sold in prior years since such subscribers will continue to be fully supported through the subscription periods (see Note 1).



## Notes to the Unaudited Consolidated Financial Statements as of March 31, 2005

**Note 3 - Accounting for Stock-Based Compensation**

As allowed by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-based Compensation" (SFAS No. 123), the Company utilizes the intrinsic-value method of accounting prescribed by the Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations, to account for stock option plans for employees and directors. Compensation cost for stock options, if any, would be measured as the excess of the estimated market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

The fair value of options and warrants granted to non-employees, is measured according to the Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield; risk-free interest rates of 1.69% to 3.85%; volatility between 46.54% and 74.75%; and an expected life between one and ten years.

The Company has adopted the disclosure requirements of SFAS No. 123 and SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure", for awards to its directors and employees. For disclosure purposes only, the fair value of options granted to employees and directors prior to May 12, 2004, the date of the Company's first filing with the U.S. Securities and Exchange Commission, in connection with its initial public offering (the "IPO"), was estimated on the date of grant using the minimum-value method with the following weighted average assumptions: no dividend yield; risk-free interest rates of 2.18% to 6.59%; and an expected life of three to five years. The fair value of options granted to employees and directors subsequent to May 12, 2004, are measured, for disclosure purposes only, according to the Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield; risk-free interest rates of 3.29% to 4.18%; volatility between 53.66% and 66.76%; and an expected life of four years.

The following illustrates the effect on net loss and net loss per share, if the Company had applied the fair value methods of SFAS No. 123 for accounting purposes:

	Three months ended March 31		Cumulative from inception through March 31, 2005
	2005	2004	
	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)
Net loss, as reported	(1,504,924)	(1,692,712)	(42,101,041)
Add:			
Stock-based compensation expense to employees and directors included in reported net loss, net of related tax effects	9,918	8,704	50,295
Deduct:			
Stock-based compensation expense to employees and directors determined under fair value based method for all awards, net of related tax effects	(72,886)	(12,855)	(298,603)

Pro-forma net loss	<b>(1,567,892)</b>	(1,696,863)	(42,349,349)
Net loss per common share, basic and diluted:			
As reported	<b>(0.25)</b>	(1.33)	(25.35)
Pro-forma	<b>(0.26)</b>	(1.33)	(25.50)

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Notes to the Unaudited Consolidated Financial Statements as of March 31, 2005

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**Note 3 - Accounting for Stock-Based Compensation (cont'd)**

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R). This Statement is a revision of SFAS No. 123, and it establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement eliminates the option to use APB 25's intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued and it instead requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Pursuant to SFAS No. 123R, the Company will apply its provisions beginning the first quarter of 2006. SFAS 123R provides two alternative adoption methods. The first method is a modified prospective method whereby a company would recognize share-based employee costs from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date. Measurement and attribution of compensation cost for awards that are unvested as of the effective date of SFAS 123R would be based on the same estimate of the grant-date fair value and the same attribution method used previously under SFAS No. 123. The second adoption method is a modified retrospective transition method whereby a company would recognize employee compensation cost for periods presented prior to the adoption of SFAS 123R in accordance with the original provisions of SFAS 123, that is, an entity would recognize employee compensation costs in the amounts reported in the pro forma disclosures provided in accordance with SFAS 123. A company would not be permitted to make any changes to those amounts upon adoption of SFAS 123R unless those changes represent a correction of an error. The Company is currently considering which of the two methods it will adopt, and the effect that the adoption of SFAS 123R will have on its financial statements.

Notes to the Unaudited Consolidated Financial Statements as of March 31, 2005

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**Note 4 - Stockholders' Equity**

**(a) Common Stock**

On March 13, 2005, the Company issued 7,800 shares of common stock to an investor relations firm, pursuant to a one-year agreement that began on December 13, 2004. The fair value of the shares, of \$151,086, will be amortized to general and administrative expenses over the life of the service period.

**(b) Stock Warrants**

During 2004, in connection with the issuance of Convertible Promissory Notes in January and February of 2004, the Company issued warrants to acquire an aggregate of 2,067,316 shares of Common Stock (the "Bridge Warrants"), at an exercise price of \$7.20 per share, with the exception of 265,837 bridge warrants exercisable at \$3.75 per share.

During the first quarter of 2005, 69,432 of the Bridge Warrants were exercised. As a result, the Company issued an aggregate of 69,432 shares of its common stock, \$0.001 par value, for a total consideration of approximately \$500,000.

Additionally, on February 4, 2005 the Company entered into an agreement (the "Warrants Agreement"), with certain holders of Bridge Warrants, pursuant to which such holders exercised an aggregate of 1,871,783 Bridge Warrants at the stated exercise price thereof. As a result, the Company issued an aggregate of 1,871,783 shares of its common stock, for aggregate gross consideration of \$12,559,700. Under the terms of the Warrants Agreement, in order to provide incentive to the warrant holders to exercise their Bridge Warrants, for every share of common stock purchased by the holders through the exercise of Bridge Warrants, the Company issued to the warrant holders new warrants, dated February 4, 2005, to purchase such number of shares of common stock equal to 55% of the number of shares of common stock underlying their respective Bridge Warrants (the "New Warrants"). As a result, the Company issued 1,029,488 of New Warrants at an exercise price of \$17.27 per share. The New Warrants are immediately exercisable and expire on February 4, 2010.

On January 20, 2005, the Company entered into an agreement with an investment banking firm, which was also one of the underwriters of the Company's IPO, to provide general financial advisory and investment banking services for \$5,000 per month, and for a minimum term of six months. Further, upon signing of the contract, the underwriter received fully vested warrants to acquire 100,000 shares of Common Stock at an exercise price of \$11.00. The fair value of the warrants, of \$577,440, will be amortized to general and administrative expenses over the life of the minimum service period.

Notes to the Unaudited Consolidated Financial Statements as of March 31, 2005

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**Note 4 - Stockholders' Equity (cont'd)**

**(c) Stock Options**

During the first quarter of 2005, 75,726 of the Company's outstanding stock options were exercised, for a total consideration of approximately \$804,000. As a result, the Company issued an aggregate of 75,726 shares of its common stock.

On March 5, 2005, the Company entered into an agreement with a consulting firm for the provision of strategic planning services. In connection therewith, the Company granted 20,000 stock options of which 3,333 stock options were fully vested, with the remaining 16,667 stock options vesting in equal monthly installments over the ten month period of the agreement. As a result, the Company recorded \$106,901 of marketing expenses, which represents the fair value of the vested stock options as of March 31, 2005. The fair value of the unvested portion as of March 31, 2005, amounts to approximately \$183,000 and will be revalued during the subsequent reporting periods. The agreement also provides for ten monthly payments of \$5,000 and may be terminated by either party upon thirty days notice. In the case of termination by the Company, the greater of (i) one-half of all options which are unvested at the end of the 30-day notice period, or (ii) 5,000 options, will vest immediately upon the end of the notice period, however, monthly payments will cease.

On March 15, 2005, the Company granted 200,000 stock options to one of its officers. The options will vest 25% upon the first anniversary date of the option grant, with the remainder vesting in equal monthly installments over the 36 months thereafter. In the event of a change of control, as defined in the officer's employment agreement, these options will be forfeited and the officer shall receive 50,000 shares of the Company's common stock.

All stock options that were granted in the first quarter of 2005, were granted under the Company's 2004 Stock Option Plan.

**(d) Other Comprehensive Income (Loss)**

In January 2005, the Company reversed previously recorded unrealized loss on securities.

## Notes to the Unaudited Consolidated Financial Statements as of March 31, 2005

**Note 5 - Commitments and Contingencies**

(a) Future minimum lease payments under non-cancelable operating leases for office space and cars, as of March 31, 2005 are as follows:

<b>Year ending December 31</b>	<b>\$</b>
2005	202,166
2006	78,578
2007	42,153
2008	773
	323,670

Rental expense for operating leases for the three month ended March 31, 2005 and 2004 was approximately \$60,000 and \$38,000, respectively.

(b) As security for future rental commitments the Subsidiary provided a bank guarantee in the amount of approximately \$113,000.

(c) All of the Subsidiary's obligations to its bank, including the bank guarantee that such bank made to the Subsidiary's landlord, are secured by a lien on all of the Subsidiary's deposits at such bank. As of March 31, 2005, deposits at such bank amounted to \$383,494, including a long-term deposit of \$126,720.

(d) In the ordinary course of business, the Company enters into various arrangements with vendors and other business partners, principally for content, web-hosting, marketing and investor relations arrangements. During the first quarter of 2005, the Company entered into agreements with three consulting firms for the provision of services in the areas of public relations, strategic planning and investment banking. The agreements, which are for periods between six months and one year, are for an aggregate cash amount of \$210,000. In connection with the aforesaid agreements, the Company also agreed to grant warrants to acquire 100,000 shares of common stock and 20,000 stock options (see Note 4).

(e) In December 2002, the Company implemented a reorganization (the "December 2002 Reorganization") which substantially reduced the Company's expenditures. The December 2002 Reorganization included staff reductions of fifteen persons, or approximately 52% of the Company's work force, including senior management, professional services, sales and marketing, research and development and administrative staff. The December 2002 Reorganization also included the shutdown of the Company's California office and resulted in a loss on the disposal of fixed assets. In total, the Company incurred a loss of approximately \$1,048,000 in connection with the December 2002 Reorganization, of which \$780,000 related to the disposal of fixed assets, and \$265,000 related to an accrual for salaries, benefits and office and equipment lease obligations that the Company recorded as of December 31, 2002. Of the amount accrued, \$218,000 was paid during 2003, \$22,000 was paid during 2004, \$5,000 was paid during the first quarter of 2005 and \$20,000, which relates to a lease obligation for equipment no longer in use, remains outstanding as of March 31, 2005.



Notes to the Unaudited Consolidated Financial Statements as of March 31, 2005

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**Note 6 - Subsequent Events**

- (a) As a part of the Warrants Agreement as discussed in Note 4, the Company had agreed to file a registration statement with the U.S. Securities and Exchange Commission (the "SEC") by no later than April 6, 2005, to register for resale the shares of common stock underlying the new warrants (the "Registration Statement") and to have the Registration Statement effective by no later than May 5, 2005. On April 6, the Company filed the Registration Statement with the SEC, which became effective on April 21, 2005. In the Registration Statement, the Company also registered 111,016 shares, warrants and stock options that had previously not been registered.
- (b) In April 2005, the Company entered into an operating lease for office space in New York City. The term of the lease commences on May 1, 2005 and ends on June 30, 2010. Under the terms of the lease, the Company shall have the right to cancel the lease commencing May 1, 2008, upon 90 days prior written notice to the Landlord. The monthly rental due under the lease begins at \$5,500, after a two months free rent period, and steps up at various stages throughout the lease, up to \$6,223. The Company will recognize the rent expense for this lease on a straight-line basis over the minimum lease term. In addition to the base rent, the Company will be responsible for certain costs and charges specified in the lease, including real estate taxes and utility charges.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION

*The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this filing. This discussion includes forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.*

### **General**

We possess technology that helps integrate and retrieve online information from disparate sources and delivers the result in a single consolidated browser view. Our answer engine delivers snapshot, multi-faceted definitions and explanations from attributable reference sources about numerous topics in our database. We seek to differentiate ourselves by providing our users with relevant reference information that enhances results achieved through traditional search engines. Most search engines respond to an Internet user's query with a long list of links to more Websites that in some way relate to the query term. Our answer engine automatically displays relevant, narrative responses to a user's query without requiring the user to review a list of hyperlinks sequentially. Our answer engine also directly displays information in various formats such as charts, graphs and maps.

### **Our Business Model**

On January 3, 2005, the Company announced the release of Answers.com, a website that had been launched in August 2004 in beta version. The Company also released the "1-Click Answers" software, allowing users to click anywhere on the screen for instant facts about a word or phrase. 1-Click Answers allows users working in any application such as e-mail, spreadsheet, word processing, database or other program or application to "alt-click" on a word or phrase within a document, access our online library and display information about that word or phrase in a pop-up window. While Web users enjoy our integrated reference information, our Web-based product does not provide the "alt-click" command, and context analysis that we include in our software. Our revenue model for these products is based on advertising revenue. When a user searches sponsored keywords, a link to an advertiser's Website is displayed in a premium position and identified as a sponsored result to the search. In contrast to GuruNet, the product we actively marketed prior to January 2005, we do not generate revenues from selling subscriptions to Answers.com.

Prior to January 2005, we sold subscriptions to our answer engine product, GuruNet. Prior to December 2003, we sold lifetime subscriptions to GuruNet, generally for \$40.00. In December 2003, we decided to alter our pricing model and moved to an annual subscription model, generally, \$30.00 per year. In conjunction with selling subscriptions, we also offered free access to dictionary, thesaurus, encyclopedia and other basic reference information through our products. Under our business model during those years, our ability to generate revenues was dependent upon our ability to increase the number of subscribers and increase the number of users who used our basic free product. Usage of our basic free product was our means of encouraging users to upgrade to our subscription product and increase our subscription revenue. Although we earned some advertising revenue in 2004, from advertising in our subscription and free products, such amounts were not significant. Our business model at the time strongly encouraged subscriptions, and thus we limited the amount of content available in our free product. This approach did not facilitate the amount of traffic we needed to earn significant amounts of revenue from advertising. Further, the aforesaid business model required us to maintain an infrastructure for billing and subscriptions, and we met resistance from customers to pay for "information freely accessible on the Internet". A desire to gain more expansive, ubiquitous growth led to our current implementation, in January 2005, of a free-to-customer product, Answers.com and "1-Click Answers" software, containing practically all the content that we used to sell via subscriptions.

In conjunction with the release of Answers.com, GuruNet.com began functioning primarily as a corporate website. We are no longer offering new subscriptions to GuruNet or offering downloads of GuruNet software to users who do

not have existing subscriptions. Notwithstanding, users who purchased GuruNet subscriptions prior to January 3, 2005, will continue to be fully supported through their subscription periods, and can access GuruNet services through GuruNet software or at GuruNet.com.

***Other Recent Events***

In addition to the change in our business model in the first quarter of 2005 noted above, the following events have recently transpired:

- In February 2005 we entered into an agreement (the "Warrant Reload Agreement") with certain holders of warrants that were issued by us in 2004, in connection with a bridge financing, pursuant to which such holders exercised an aggregate of 1,871,783 Bridge Warrants. As a result, we raised approximately \$12,225,000, net of costs relating to the exercise. Under the terms of the Warrant Reload Agreement, in order to provide incentive to the holders to exercise their Bridge Warrants, we issued 1,029,488 new five year warrants to purchase such number of shares of common stock (equal to 55% of the number of shares of common stock underlying their respective bridge warrants) at an exercise price of \$17.27 per share.



- On February 28, 2005, we began using Google's contextual AdSense advertising on our Answers.com information pages, as well as integrating monetized Google search into our Answers.com product.
- In March 2005, we entered into an agreement to create a co-branded Website, which will display reference content from Answers.com and search results and contextual advertising from Accoona Corporation, owners of the Accoona Search Engine, Accoona.com. We are currently in the implementation phase of this endeavor.
- In March 2005, we launched a beta mobile version of our product, accessible at . This new version enables users to view Answers.com's quick, concise facts on their mobile devices, including the Treo™, the BlackBerry™, Windows-CETM-based devices and browser-based telephones.
- On April 29, 2005, we entered into a lease agreement to lease office space in New York City. The space will serve as our U.S. headquarters. The term of the lease shall begin on May 1, 2005 and end on June 30, 2010, however, we are entitled to cancel the lease commencing May 1, 2008. The rent during the first year of the lease, after the two-month free rent period, is approximately \$66,000 per annum and will increase gradually over the term.
- In May 2005, we entered into an agreement with Shopping.com, Inc., a subsidiary of Shopping.com Ltd. to offer Answers.com users integrated product information and price comparisons. Under the agreement, Answers.com will display content from Shopping.com as a supplement to its content library. The content will include user reviews and the ability to compare prices from multiple vendors. Shopping.com will share revenues - earned through click-throughs to vendors - with Answers.com.
- Average daily queries for Answers.com and GuruNet, as measured by the company's internal statistical tools, grew throughout the first quarter of 2005 and in the subsequent period. Average daily queries during January, February, March and April of 2005 were approximately 220,000, 1,150,000, 1,550,000 and 1,790,000, respectively.

### ***Revenues***

Revenues in the first quarter of 2005 were \$175,633 compared to \$19,631 during the same period in 2004, an increase of \$156,002. Revenues in the first quarter of 2005 resulted from advertising revenues of approximately \$107,000, recognition of previously deferred subscription license revenue of approximately \$50,000, revenue from partners with whom we market co-branded products of approximately \$14,000 and other revenue of \$5,000. In contrast, revenues in the first quarter of 2004 resulted from recognition of subscription license revenue of approximately \$14,000, maintenance contracts on our corporate enterprise software of approximately \$5,000 and advertising revenue of approximately \$500.

As noted earlier, on January 3, 2005, we announced the release of Answers.com, the primary revenue model of which is advertising. In contrast, prior to January 3, 2005, our primary source of revenue was selling subscriptions to the GuruNet product, the forerunner to Answers.com. The launch of Answers.com, from a revenue perspective, was a multi-tiered process. From launch date until the middle of January, we ran public service announcements on Answers.com and did not display any advertising. In the middle of January we began using and testing various advertising network providers. We reached an important milestone on February 28, 2005, when we began using Google's contextual AdSense advertising on our Answers.com information pages, as well as integrating Google search, with paid search advertising into Answers.com. As a result of the multi-tiered launch, our January and February 2005 advertising revenues were approximately \$16,000, while March 2005 advertising revenue was

approximately \$91,000.

***Cost of Revenues***

Cost of revenues in the first quarter of 2005 was \$208,543 compared to \$ 156,527 during the same period in 2004, an increase of \$52,016 or 33%. The net increase is primarily attributable to the addition of staff that manage the production operations and web-hosting infrastructure that supports the Answers.com website, and fees we pay to Google for the web search results they provide us within the Answers.com website.

Cost of revenues is comprised of fees to third party providers of content, web search and web hosting services, and production operations and customer support salaries, benefits and overhead costs.

### ***Gross Margin***

Gross margin in the first quarter of 2005 was \$(32,910) compared to \$(136,896) during the same period in 2004, a decrease in the negative margin of \$103,896. The decrease was due to increased revenues, offset somewhat by increased cost of revenues, as discussed above.

### ***Research and Development Expenses***

Research and development expenses in the first quarter of 2005 were \$330,469 compared to \$263,788 during the same period in 2004, an increase of \$66,681 or 25%. The increase is due primarily to compensation-related expense increases as our research and development team grew in order to develop and test newer versions of our products, and due to raises in salaries. The salaries, benefits and overhead costs of personnel, conducting research and development of software and Internet products comprise research and development expenses.

### ***Sales and Marketing Expenses***

Sales and marketing expenses in the first quarter of 2005 were \$361,460 compared to \$318,929 during the same period in 2004, an increase of \$42,531 or 13%. The net increase is due to a number of factors. In the first quarter of 2005, we hired a strategic consultant who has assisted us in formulating our product and marketing strategy. In connection therewith, we recorded approximately \$27,000 of cash fees and expenses, and \$107,000 of stock based compensation. In contrast, in the first quarter of 2004, we incurred approximately \$122,000 in consulting costs relating to the redesign of our website and marketing strategy. Our public relations related costs rose by approximately \$40,000, in the first quarter of 2005, as compared to the same quarter in 2004, however, advertising and promotion expenses of approximately \$50,000 in the first quarter of 2005, were not significantly higher than the first quarter in 2004. The aforementioned increases were offset to a certain degree, by decreases in employee compensation, because we did not hire our chief revenue officer until the end of the first quarter of 2005. In contrast, in the first quarter of 2004, we employed a V.P. Business Development throughout the quarter.

Salaries, benefits and overhead costs of personnel, marketing consulting, public relations services and advertising costs, comprise sales and marketing expenses.

### ***General and Administrative Expenses***

General and administrative expenses in the first quarter of 2005 were \$851,615 compared to \$212,407 during the same period in 2004, an increase of \$639,208 or 300%. The increase is comprised of many individual line expenses, as follows.

On January 20, 2005, we entered into an agreement with an investment banking firm, which also acted as one of the underwriters of our IPO, to provide general financial advisory and investment banking services for \$5,000 per month, and for a minimum term of six months. Further, upon signing of the contract, the underwriter received fully vested warrants to acquire 100,000 shares of common stock at an exercise price of \$11.00. As a result of this agreement, we recorded approximately \$25,000 of cash compensation and \$225,000 in stock compensation, which represents the amortization of the fair value of the warrants on the date of their issuance, over the minimum term of the agreement.

In December 2004, we entered into an agreement with an investor relations firm pursuant to which they are to receive \$100,000 over a one-year period for providing us with investor relations services. Additionally, pursuant to the agreement, in March 2005, we issued 7,800 shares of common stock to such firm. As a result of this agreement, we recorded approximately \$24,000 of cash compensation and \$44,000 in stock-based compensation, which represents the amortization of the fair value of the stock on the date of their issuance, over the expected life of the agreement, through December 2005.

The remaining increase stems primarily from increases in legal and accounting costs of approximately \$185,000; increases in the number of personnel, and salaries of personnel, which resulted in an increase, in aggregate, of approximately \$40,000; increases in director fees and expenses of approximately \$40,000; and increases in our insurance costs of approximately \$30,000. The increases in the line expenses that comprise General and Administrative Expenses, including those mentioned previously, are mostly related, directly or indirectly, to the increased costs associated with being a public company.

General and administrative expenses consist primarily of salaries, benefits and overhead costs for executive and administrative personnel, insurance, fees for professional services, including investment relations, consulting, legal, and accounting fees, travel costs, investment banking fees, and other general corporate expenses. Expenses include cash-based payments and non-cash stock-based compensation. Overhead costs are comprised primarily by rent, utilities and depreciation.

### ***Interest Income (Expense), Net***

Interest income (expense), net in the first quarter of 2005 was \$85,907, compared to (\$737,034) during the same period in 2004, representing a net increase in interest income (decrease of expense) of \$822,941. Interest income, net, in 2005 is comprised primarily of interest income earned from cash and cash equivalents and investment securities. Interest expense, net, in the first quarter of 2004 is comprised primarily of \$675,000 of amortization of note discounts and deferred charges relating to convertible promissory notes, which were issued in January and February of 2004. The remainder consisted of 8% interest on the face of the those notes, approximating \$65,000, less interest income of approximately \$3,000

### ***Other Income, Net***

Other income, net, in the first quarter of 2005 was \$282 as compared to \$4,322 during the same period in 2004, a decrease of \$4,040. During the first quarter of 2005, other income is comprised primarily of foreign currency exchange net gains. Other income in the first quarter of 2004 was comprised of foreign exchange gains of approximately \$7,000, net of approximately \$3,000 relating to the write-off of withholding taxes that we did not expect to realize.

### ***Income Tax Expense***

Our effective tax rate differs from the statutory federal rate due to differences between income and expense recognition prescribed by the United States and Israeli tax laws and Generally Accepted Accounting Principles. We utilize different methods and useful lives for depreciating property and equipment. The recording of certain provisions results in expense for financial reporting but the amount is not deductible for income tax purposes until actually paid. Our deferred tax assets are mostly offset by a valuation allowance because realization depends on generating future taxable income, which, in our estimation, is not more likely to transpire, than to not transpire.

We had net operating loss carryforwards for federal and state income tax purposes of approximately \$37 million at March 31, 2005 and \$27.5 million at March 31, 2004. The federal net operating losses will expire if not utilized on various dates from 2019 through 2025. The state net operating losses will expire if not utilized on various dates from 2009 through 2013. Our Israeli subsidiary has capital loss carryforwards of approximately \$604,000 that can be applied to future capital gains for an unlimited period of time under current tax rules.

The Tax Reform Act of 1986 imposed substantial restrictions on the utilization of net operating losses and tax credits in the event of an ownership change of a corporation. Thus, in accordance with Internal Revenue Code, Section 382, our recent Initial Public Offering and other ownership changes that have transpired, will significantly limit our ability to utilize net operating losses and credit carryforwards.

Our subsidiary had income in 2004 and 2003, resulting from its cost plus agreement with the parent company, whereby it charges us for research and development services it provides to us, plus 12.5%. However, the subsidiary is an "approved enterprise" under Israeli law, which means that income arising from the subsidiary's approved activities is subject to zero tax under the "alternative benefit" path for a period of ten years. In the event of distribution by the subsidiary of a cash dividend out of retained earnings which were tax exempt due to the "approved enterprise" status, the subsidiary would have to pay a 10% corporate tax on the amount distributed, and the recipient would have to pay a 15% tax (to be withheld at source) on the amounts of such distribution received.

As of March 31, 2005, we accrued approximately \$87,000, net, to reflect the estimated taxes that our subsidiary would have to pay if it distributed its accumulated earnings to us. Should the subsidiary derive income from sources other than the approved enterprise during the relevant period of benefits, this income will be taxable at the tax rate in effect at that time (currently 34%, gradually being reduced to 30% in 2005-2008). Through March 31, 2005, our Israeli

subsidiary received tax benefits of approximately \$730,000.

***Net Loss***

Our net loss decreased to \$1,504,924 in the first quarter of 2005 from \$1,692,712 in the same period in 2004, a decrease of \$187,788, or 11%, as a result of the changes in our revenues, cost of sales and expenses as described above.

**Critical Accounting Estimates**

While our significant accounting policies are more fully described in the notes to our audited consolidated financial statements for the year ended December 31, 2004, we believe the following accounting policies to be the most critical in understanding the judgments and estimates we use in preparing our consolidated financial statements.

***Revenue Recognition***

In 2003, we sold lifetime subscriptions to our consumer product and did not recognize revenue from those sales since the obligation to continue serving such content had no defined termination date and adequate history to estimate the life of the customer relationship was not available. Cash received from such lifetime licenses is reflected as long-term deferred revenues on the accompanying balance sheets. Beginning December 2003 and throughout 2004, we generally, sold consumers one-year subscriptions to GuruNet. We recognize the amounts we received from those subscriptions over the life of the related subscription. Beginning April 2004, certain users who purchased lifetime subscriptions in 2003 exchanged their lifetime subscriptions for free two-year subscriptions to a newer, enhanced version of the GuruNet product. The cash previously received from such users is being recognized as revenues over the new two-year subscription. Beginning January 2005, we no longer offer subscriptions to our consumer products and/or websites. Rather, our consumer business model is now an advertising-only model. Notwithstanding, we have not terminated fixed-term and lifetime subscriptions to GuruNet that we previously sold. This means that those users will continue to receive content and will not have to upgrade their software. The software they downloaded in conjunction with their subscription will be supported. Our accounting treatment relating to those subscriptions has not changed, since we continue to honor those subscriptions.

***Accounting for Stock-based Compensation***

In January 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, *"Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment of FASB Statement No. 123"* ("SFAS 148"), which provides alternative methods of transition for a voluntary change to a fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement of Financial Accounting Standards No. 123 *"Accounting for Stock-based Compensation"* ("SFAS 123"), to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We account for stock-based compensation for employees under APB 25, and elect the disclosure-only alternative under SFAS 123, providing the enhanced disclosures as required by SFAS 148.

We record deferred stock-based compensation expense for stock options granted to employees and directors if the market value of the stock at the date of grant exceeds the exercise price of the option. We recognize expenses as we amortize the deferred stock-based compensation amounts over the related vesting periods. The market value of our stock, so long as we were a private company, was determined by us based on a number of factors including comparisons to private equity investments in us. These valuations are inherently highly uncertain and subjective. If we had made different assumptions, our deferred stock-based compensation amount, our stock-based compensation expense, our net loss and our net loss per share could have been significantly different.

The fair value of stock warrants and stock options granted to non-employees are measured throughout the vesting period as they are earned, at which time we recognize a charge to stock-based compensation. The fair value is determined using the Black-Scholes option-pricing model, which considers the exercise price relative to the market value of the underlying stock, the expected stock price volatility, the risk-free interest rate and the dividend yield, and an estimate of the life of the warrant or option. As discussed above, the market value of the underlying stock was based on assumptions of matters that are inherently highly uncertain and subjective. Since, prior to our IPO there had been no public market for our stock, our assumptions about stock price volatility are based on the volatility rates of comparable publicly held companies. These rates may or may not reflect our stock price volatility following the offering. If we had made different assumptions about the fair value of our stock or stock price volatility, or our estimate of the time stock warrants and stock options will be outstanding before they are ultimately exercised, the related stock based compensation expense, our net loss and our net loss per share amounts could have been significantly different.

For example, in the first quarter of 2005, we estimated that the fair value of 100,000 common stock warrants that our investment banker received in connection with an agreement pursuant to which it provides us with general financial advisory and investment banking services, to be \$577,000. Such amount is being amortized over the minimum life of the agreement, which is six months. One of the assumptions driving the fair value of the warrants was the estimate of the date the warrants will be exercised. As required, we assumed the warrants will be exercised on the last day before they expire, which is five years after the date the warrants were issued. If, for example, we had assumed that the warrants would be exercised one year after their issuance, their value, and the charge, would have been approximately \$146,000, rather than \$577,000.

We are required in the preparation of the disclosures required under SFAS 148 to make certain estimates when ascribing a value to employee stock options granted during the year. These estimates include, but are not limited to, an estimate of the average time option grants will be outstanding before they are ultimately exercised and converted into common stock. These estimates are integral to the valuing of these option grants. Any changes in these estimates may have a material effect on the value ascribed to these option grants. This would in turn affect the amortization used in the disclosures we make under SFAS 148, which could be material. For disclosure purposes only, the fair value of options granted in the past to employees was estimated on the date of grant using the minimum-value method with the following weighted average assumptions: no dividend yield; risk-free interest rates of 2.18% to 6.59%; and an expected life of three to five years. The fair value of options granted to employees subsequent to May 12, 2004, the date of our first filing with the U.S. Securities and Exchange Commission in connection with our IPO is measured, for disclosure purposes only, according to the Black-Scholes option-pricing model, with the following weighted average assumptions: no dividend yield; risk-free interest rates of 3.29% to 4.18%; volatility between 53.66% and 66.76%, and an expected life of four years. If we had made different assumptions than those noted above, the related disclosures under SFAS 148 could have been significantly different.



Finally, the FASB recently enacted Statement of Financial Accounting Standards 123-revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaces SFAS 123. The impact of SFAS 123R on future periods is discussed in the section of this Management's Discussion & Analysis titled "Recent Accounting Pronouncements".

### ***Accounting For Income Taxes***

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves management estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax item in the statement of operations. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have fully offset our US deferred tax asset with a valuation allowance. Our lack of earnings history and the uncertainty surrounding our ability to generate taxable income prior to the expiration of such deferred tax assets were the primary factors considered by management in establishing the valuation allowance. Deferred tax assets and liabilities in the financial statements result from the tax amounts that would result if our Israeli subsidiary distributed its retained earnings to us. This subsidiary is entitled to a tax holiday, as described above, yet continues to generate taxable income in respect of services provided to us, and therefore were the subsidiary to distribute its retained earnings to us, we believe that the deferred tax asset relating to the Israeli subsidiary would be realized. In the event that our subsidiary's products would not generate such taxable income, we would need to write off the deferred tax asset as an expense in the statement of operations. It should be noted that as the income is derived from us, it is eliminated upon consolidation.

### ***Foreign Currency Translation***

Beginning February 2004, our Israeli subsidiary began paying substantially all of its salaries linked to the U.S. dollar ("USD"), rather than the New Israeli Shekel ("NIS"). Based on this change, and in conjunction with all other relevant factors, our management has determined that the subsidiary's functional currency, beginning the first quarter of 2004, is the USD. SFAS 52, "Foreign Currency Translation", Appendix A, paragraph 42, cites economic factors that, among others, should be considered when determining functional currency. We determined that the cash flow, sales price and expense factors for our subsidiary, which prior to 2004 all indicated functional currency in foreign currency, have changed in 2004 to indicate the functional currency is the USD.

Our subsidiary's revenue is derived based on a cost plus methodology. Prior to 2004, salary expense, its primary expense, was determined in the foreign currency resulting in income and expenses being based on foreign currency. However, in 2004, a triggering event occurred that, in our opinion, warranted a change of the functional currency of our subsidiary to that of our currency, USD. Salary expense, the primary expense of our subsidiary, began to be denominated in USD. This led to a change with respect to the currency of the cash flow, sales price and expense economic factors and resulted in a determination that our subsidiary's functional currency had changed to that of our functional currency.

Had we determined that our subsidiary's functional currency was different than what was actually used, we believe that the effect of such determination would not have had a material impact on our financial statements.

### **Recently Issued Accounting Pronouncements**

In March 2004, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 03-01, “*The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*” (“EITF 03-1”). EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, “*Accounting for Certain Investments in Debt and Equity Securities*” (“SFAS No. 115”), and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. On September 30, 2004, the FASB issued FSP 03-1-1, “*Effective Date of Paragraphs 10-20 of EITF Issue 03-1, 'The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments',*” delaying the effective date for the recognition and measurement guidance of EITF 03-1, as contained in paragraphs 10-20, until certain implementation issues are addressed and a final FSP providing implementation guidance is issued. Until new guidance is issued, companies must continue to comply with the disclosure requirements of EITF 03-1 and all relevant measurement and recognition requirements in other accounting literature. We do not expect the adoption of EITF 03-1 to have a material effect on our financial statements.

In December 2004, the FASB issued SFAS No. 153, “*Exchanges of Nonmonetary Assets - an amendment to APB No. 29*”. This Statement amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Adoption of this statement is not expected to have a material impact on our results of operations and financial condition.

In December 2004, the FASB issued SFAS 123R, which 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 income. The accounting provisions of SFAS 123R are effective for us for reporting periods beginning after December 15, 2005. We are required to adopt SFAS 123R in the first quarter of fiscal 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See Note 3 in our Notes to the unaudited Consolidated Financial Statements for the pro forma net loss and net loss per share amounts, 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. Although we have not yet determined the method of adoption and whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we are evaluating the requirements under SFAS 123R and the impact their adoption will have on our consolidated statements of operations and net income (loss) per share.

## Liquidity and Capital Resources

### General

From our inception through March 31, 2005, our operations have been funded almost entirely through the proceeds we received from issuance of four series of convertible preferred stock between 1999 and the end of 2001, convertible promissory notes in the first quarter of 2004 and our IPO in last quarter of 2004. The amounts raised were used primarily to fund research and development, sales and marketing, business development and general and administrative costs.

In February 2005 the Company entered into an agreement with certain holders of warrants that were issued by the Company in 2004 in connection with a bridge financing, pursuant to which such holders exercised an aggregate of 1,871,783 Bridge Warrants. As a result, the Company raised approximately \$12,225,000, net of costs relating to the exercise. Further, in 2005, to date, we raised additional amounts, in excess of \$1 million, from other exercises of options and warrants.

As of March 31, 2005, we had \$21,947,010 of assets consisting of \$3,050,760 in cash and cash equivalents, \$16,850,000 in investment securities, \$791,759 in other current assets and the remaining balance in property and equipment and other long-term assets. Total liabilities as of March 31, 2005, reflect current liabilities of \$1,153,545, consisting primary of accounts payable and accrued expenses and compensation, and long-term liabilities of \$1,103,694, which are comprised primarily of liabilities in respect of employee severance obligations and deferred revenues, long-term.

Cash flows for the three months ended March 31, 2005 and 2004 were as follows:

	March 31, 2005	March 31, 2004
Net cash used in operating activities	\$ (964,401)	\$ (806,551)
Net cash used in investing activities	\$ (11,075,138)	\$ (79,521)
Net cash provided by financing activities	\$ 13,524,962	\$ 3,987,758

Despite a net loss of \$1,504,924 in the first quarter of 2005, our net cash used in operations was \$964,401. The primary reasons for the large difference is that \$386,000 of our operating expenses were the result of non-cash, stock-based compensation, and various changes in our operating assets and liabilities. In the first quarter of 2004,

despite a net loss of \$1,692,712, our net cash used in operations was \$806,551. This was due to many factors, the most significant of which is non-cash, amortization of promissory note discounts, of \$547,502.

Cash used in investing activities of \$11,075,138, in the first quarter of 2005 is attributable primarily to purchases of investment securities of \$13,250,000, less the proceeds, of \$2,250,000, from the sale of investment securities. Investment securities consist of investments in auction rate, investment grade, corporate and municipal debt instruments, and auction rate preferred shares of closed-end investment funds that invest in long-term fixed income securities, with auction reset periods of 28 days, classified as available-for-sale securities and stated at fair value. Cash used in investing activities of \$79,521 in the first quarter of 2004 is mainly due to the purchase of the Answers.com domain name for \$80,200.

Cash flow from financing activities during the first quarter of 2005 was comprised of the net proceeds, of approximately \$12,225,000 from the exercise of warrants via the Warrant Reload Agreement, with the remainder resulting from other exercises of stock warrants and stock options. Cash flow from financing activities during the first quarter of 2004 was comprised primarily of the net proceeds relating to the \$5.0 million of bridge notes issued in January and February 2004.

### ***Current and Future Financing Needs***

We have incurred negative cash flow from operations since our inception. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy. We raised approximately \$10,786,000, net of underwriting fees and offering expenses, through our IPO and the exercise of the over-allotment option in the last quarter of 2004. After repaying the portion of the bridge notes that did not convert to common shares, of \$3,160,000, approximately \$7.6 million remained. In February 2005 we entered into the Warrant Reload Agreement with certain holders of warrants that were issued by us in 2004 in connection with the bridge financing, pursuant to which such holders exercised an aggregate of 1,871,783 Bridge Warrants. As a result, we raised approximately \$12,225,000, net of costs relating to the exercise. Further, in the first quarter of 2005, we raised additional amounts, in excess of \$1 million, from other exercises of options and warrants. Based on our current plans, we believe that the net proceeds of the aforementioned IPO and the exercise of the over-allotment option, and of the Warrant Reload Agreement, will be sufficient to enable us to meet our planned operating needs for the next twelve months and to fund possible future acquisitions. Notwithstanding, we may decide to raise funds in the future, via public or private sales of our shares or debt and/or other sources, to finance acquisitions and growth.

### **Off-Balance Sheet Arrangements**

We have not entered into any transactions with unconsolidated entities in which we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities or any other obligations under a variable interest in an unconsolidated entity that provides us with financing, liquidity, market risk or credit risk support.

### **ITEM 3. CONTROLS AND PROCEDURES**

Based on their evaluations as of the end of the period covered in this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

We believe that a controls system, no matter how well designed and operated, is based in part upon certain assumptions about the likelihood of future events, and therefore can only provide, reasonable, not absolute, assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

In addition, we have reviewed our internal controls over financial reporting and have made no changes during the quarter ended March 31, 2005, that our certifying officers concluded materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are not currently involved in any legal proceedings. However, from time to time we may be subject to legal proceedings and claims in the ordinary course of business.

ITEM 2. CHANGES IN SECURITIES

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

31.1 Certification of Principal Executive Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.

31.2 Certification of Principal Financial Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.

32.1\* Certification of Principal Executive Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

32.2\* Certification of Principal Financial Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

\*The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly Report on Form 10-QSB pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by GuruNet Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

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.

GURUNET CORPORATION

Date: May 11, 2005

/s/ Robert S. Rosenschein  
Robert S. Rosenschein  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Steven Steinberg  
Steven Steinberg  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

31.1 Certification of Principal Executive Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.

31.2 Certification of Principal Financial Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.

32.1\* Certification of Principal Executive Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

32.2\* Certification of Principal Financial Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

\*The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly Report on Form 10-QSB pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by GuruNet Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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**EXHIBIT 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Robert S. Rosenschein, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of GuruNet Corporation;
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 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)) 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) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]



- 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 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: May 11, 2005

/s/ Robert S. Rosenschein  
Robert S. Rosenschein  
Chief Executive Officer  
(Principal Executive Officer)

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**EXHIBIT 31.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Steven Steinberg, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of GuruNet Corporation;
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 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)) 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)[Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]

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, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the such auditors any material weaknesses in internal controls; and

b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: May 11, 2005

/s/ Steven Steinberg  
Steven Steinberg  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT 32.1**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-QSB of GuruNet Corporation (the "Company") for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert S. Rosenschein, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- a. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2005

/s/ Robert S. Rosenschein  
Robert S. Rosenschein  
Chief Executive Officer

(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**EXHIBIT 32.2**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-QSB of GuruNet Corporation (the "Company") for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Steven Steinberg, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- a. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2005

/s/ Steven Steinberg  
Steven Steinberg  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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