

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33720

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**HSW INTERNATIONAL, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**33-1135689**  
(I.R.S. Employer  
Identification No.)

**3280 Peachtree Road, Suite 600  
Atlanta, Georgia 30305**

(Address of principal executive offices, including zip code)

**(404) 364-5823**  
(Registrant's telephone number, including area code)

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.001 Par Value	NASDAQ Global Market

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

Indicate by check mark if the Registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).  
Yes  No

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Large accelerated filer   
Non-accelerated filer   
(Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company

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

At March 28, 2011, 5,424,455 shares of the Registrant's common stock, \$0.001 par value per share, were outstanding. The aggregate market value of the common stock held by nonaffiliates of the registrant was approximately \$4,360,430 as of June 30, 2010, based on the closing price of the Common Stock on that date on the Nasdaq Global Market. Shares of common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such person might be deemed to be an affiliate. This determination of affiliate status might not be conclusive for other purposes.

Documents incorporated by reference:

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## PART I

### Forward-looking information

*Our disclosure and analysis in this report concerning our operations, cash flows and financial position, including, in particular, the likelihood of our success in expanding our business and our assumptions regarding the regulatory environment and international markets, include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "may" and similar expressions are forward-looking statements. Although these statements are based upon reasonable assumptions, they are subject to risks and uncertainties that are described more fully in this report in the section titled "Part I, Item 1A. Risk Factors." These forward-looking statements represent our estimates and assumptions only as of the date of this filing and are not intended to give any assurance as to future results. As a result, you should not place undue reliance on any forward-looking statements. We assume no obligation to update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors, except as required by applicable securities laws.*

### ITEM 1. BUSINESS

#### Overview

HSW International, Inc. ("HSWI", "HSW International", or the "Company") is an online media company that develops and operates next-generation web publishing platforms combining traditional web publishing with social media. Our co-founding and continuing development of Sharecare, Inc. created a highly searchable social Q&A healthcare platform organizing and answering the questions of health with Harpo Productions, Sony Pictures Television, Discovery Communications, Jeff Arnold, and Dr. Mehmet Oz. Our international websites published under the HowStuffWorks brand provide readers in China and Brazil with thousands of articles about how the world around them works, serving as destinations for credible, easy-to-understand reference information. HSWI is the exclusive licensee in China and Brazil for the digital publication of translated content from Discovery, Inc.'s HowStuffWorks.com, and in China for the digital publication of translated content from World Book, Inc., publisher of World Book Encyclopedia. We generate revenue primarily through service fees charged to clients for web platform development and operation services and the sale of online advertising on our websites. Information on our websites is not incorporated by reference into this Form 10-K. We were incorporated in Delaware in March 2006. Our headquarters are located at 3280 Peachtree Road, Suite 600, Atlanta, Georgia 30305.

#### Our History

HSW International was formed in March 2006 as a wholly owned subsidiary of HowStuffWorks, Inc. in order to develop businesses using exclusive digital publishing rights to HowStuffWorks' content for the countries of China and Brazil, and effect the merger with INTAC International, Inc. (the "INTAC Merger"). We completed the INTAC Merger in 2007 to assist in the development of our digital content database exclusively licensed from HowStuffWorks by (i) accelerating our obtaining Internet licenses in China for launching our Internet platform, (ii) obtaining INTAC's knowledge of the Chinese markets, relationships, and core competencies to accelerate the growth of our Internet platforms in China, and (iii) providing additional cash flow from INTAC's established businesses. These established businesses included services related to wireless telephone training and the development and sale of educational software delivered to customers in China (the "INTAC Legacy Businesses").

We initially focused on the online publishing of localized, translated Chinese and Brazilian editions of HowStuffWorks.com, utilizing strategies based on those employed by HowStuffWorks, Inc., as tailored to the needs of each localized market.

In 2008, we decided to further leverage our web publishing infrastructure, diversify our initial focus on emerging economies, and enter the healthcare digital market. We participated in the founding of Sharecare, and in October 2009 we acquired an equity position in Sharecare, became its development partner, and sold to it substantially all assets of our DailyStrength health social networking business. As the global economic environment remains tenuous and we continue to have lowered expectations for near-term growth in the emerging economies, we believe our diversification into the world's largest online advertising economy – the United States – provides greater access to digital revenues.

HSW International established a new web platform services line of business in 2009, to provide highly customized services and web platforms to other companies seeking cost effective solutions for innovative content-focused websites. We have licensed rights to use the Web 3.0 platform, a next-generation web publishing platform combining traditional web publishing with social media, we developed for Sharecare. These rights allow us to create new opportunities in the United States and other markets, and our strategy is to enter into relationships to design, develop, and operate the web platforms for other companies. This direction allows us to leverage HSWI's expertise in online publishing and provide a source of revenue for the Company. We also recognize the value of developing our own product based on the Web 3.0 platform and intend to pursue opportunities with strategic partners to plan, develop and build content vertical websites unique to HSWI.

#### **Our Relationship with Discovery Communications, Inc.**

Following HowStuffWorks' contribution of digital publishing rights to us, HowStuffWorks merged with Discovery Communications, Inc. on December 17, 2007 (the "Discovery Merger"), and became a wholly owned subsidiary of Discovery. The following summarizes the material agreements between HowStuffWorks and us:

- We hold a perpetual, fully paid, royalty-free, sublicensable exclusive license to certain of the content published on HowStuffWorks.com in local languages and the HowStuffWorks brand for Brazil and China.
- HowStuffWorks provides to us new and updated content published on HowStuffWorks.com, upon our request and pursuant to the same license terms.
- We have the right to an exclusive license for the HowStuffWorks trademarks for our Brazil and China websites that display the HowStuffWorks content.
- We hold a perpetual, fully paid up, royalty-free, sublicensable license to the software code for HowStuffWorks' content management platform.
- HowStuffWorks has the right to designate three members of our Board of Directors and the chairperson of the Nominating and Governance Committee.

The merger agreement between Discovery and HowStuffWorks provided that payment to the former HowStuffWorks shareholders for a significant portion of its ownership of our common stock would not be paid at the October 2007 closing of the transaction, but instead would be available to be paid in three semi-annual installments. The installments were planned to begin in October 2008; however, no payment has occurred as of December 31, 2010. Such payments will be in the form of cash or shares of HSWI stock now held by HowStuffWorks. Accordingly, the amount of shares of our common stock Discovery indirectly owns in the future may fall due to the potential distributions pursuant to the terms of the Discovery Merger. At December 31, 2010, Discovery, through HowStuffWorks, owned approximately 43% of our outstanding common stock.

#### **Recent Developments**

##### ***Sharecare Transactions***

On October 30, 2009, the Company entered into and effectuated a series of transactions with Sharecare (the "Sharecare Transactions"), which was established as a venture between: Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of "The Dr. Oz Show"; HARPO Productions, producer of "The Oprah Winfrey Show"; Discovery Communications, the world's largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications' Chief of Global Digital Strategy; Sony Pictures Television; and HSWI. Sharecare was created to build a web-based platform that simplifies the search for health and wellness information by organizing a vast array of the questions of health and providing multiple answers from experts, organizations, publishers, and caregivers representing various points of view.

As a result of these transactions, the Company received an equity stake in Sharecare, sold substantially all of the assets of its DailyStrength subsidiary to Sharecare, agreed to provide management and website development services to Sharecare, and received a limited license to use the Sharecare web platform for HSWI's own businesses. As of March 28, 2011, HSWI owned approximately 16.5% of Sharecare with an option to increase its ownership position to approximately 18% and had representation on its board of directors. We consider Sharecare a related party. Further information about Sharecare is available at <http://sharecare.com>, we do not incorporate any information on the site into this Form 10-K.

We are a founding partner of Sharecare and provided the technology development services for Sharecare through our Web Platform Services division. These services resulted in the development of a unique platform that features interactive questions and answers combining expert content and social media and enabling efficient and intuitive consumption of health and wellness content. We began development of the platform for Sharecare in July 2009, and Sharecare.com was launched in October 2010. Effective January 1, 2011, we entered into an extension of our agreement to provide web platform management and support services to Sharecare through December 31, 2011, and expect to fully transition these services to Sharecare by the end of this most recent extension.

On November 17, 2010, Sharecare completed a sale of additional equity securities to its founding stockholders. Rather than purchase its pro rata share of equity securities offered in the financing, HSWI purchased an option to purchase at a later date its pro rata share of Sharecare's equity securities. HSWI purchased the option for a percentage of the purchase price of its pro rata share of equity securities offered in the financing. The option expires on July 30, 2011, and may be exercised in whole (but not in part) at any time prior to that date by payment of the aggregate exercise price of the equity shares to be purchased.

#### ***Como Tudo Funciona – HowStuffWorks Brazil***

We are continuing to evaluate our business strategy in Brazil in light of our challenges in generating revenues despite achieving meaningful traffic levels. In February 2011, we implemented cost-saving measures in our Brazil operations in connection with our search for a strategic media partner and consideration of other strategic alternatives. We believe our resources can be better applied to developing and establishing new content vertical websites leveraging the Web 3.0 platform we developed, and as a result are managing our cash flows in Brazil while evaluating our opportunities.

#### **Products and Services**

##### ***Web Platform Services***

In 2009, we established Web Platform Services as a new line of business and operating segment to capitalize on the Company's web publishing and social media expertise and core competency of developing and operating web platforms and Internet businesses.

We developed, launched, and began operating Ask Dr. Oz (<http://doctoroz.com/ask>) in September 2009 for Sharecare as the first website of our Web Platform Services business. We entered into an agreement with Sharecare, on October 30, 2009, to design, develop, launch and operate Sharecare's Web 3.0 platform. The Sharecare website was launched in October 2010 featuring a database of interactive questions and answers about healthcare information with input from physicians, nurses, and hospitals, representing multiple points of view on a variety of topics. As part of this relationship, HSWI received a license to use this Web 3.0 platform for certain of its own businesses outside of the health and wellness markets.

For Discovery Communications, we launched Curiosity Online (<http://curiosity.discovery.com/>) on September 30, 2010, and are continuing development work on the initiative. We intend to expand our Web Platform Services to additional clients in the coming year, while we actively develop content vertical websites owned by HSWI that we intend to launch as a new business line taking advantage of our platform know-how and expertise.

#### ***Como Tudo Funciona – HowStuffWorks Brazil***

*Como Tudo Funciona* (<http://hsw.com.br>) is Brazil's online source for credible, unbiased and easy-to-understand explanations of how the world actually works. The Portuguese-language site is the exclusive digital publisher in Brazil of translated and localized content from the leading Discovery Communications brand HowStuffWorks, and is published from HSWI's São Paulo offices. *Como Tudo Funciona* was established in March 2007, and as of December 31, 2010, had published over 6,700 articles that were either originally created content or translated and localized from HowStuffWorks. We are continuing the development of our business strategy in Brazil and are searching for a strategic media partner to build brand recognition and provide greater exposure to our

Portuguese content. We are continuing to evaluate our business strategy in Brazil. In February 2011, we implemented certain cost-savings measures in our Brazil operations in connection with our search for a strategic media partner and consideration of other strategic alternatives.

#### ***BoWenWang – HowStuffWorks China***

*BoWenWang* (<http://www.bowenwang.com.cn>) is an information and reference website that provides China with encyclopedic knowledge and easy-to-understand explanations of how the world works. The website is published from Beijing in the Chinese language. Launched in June 2008, *BoWenWang* features a combination of original content authored by the Company, translated and localized articles from the leading Discovery Communications brand HowStuffWorks, and content from World Book, Inc.

*BoWenWang* is the exclusive digital publisher in China of translated HowStuffWorks content. In September 2008, we entered into an exclusive content partnership with World Book, Inc. to dramatically increase the amount of content published on *BoWenWang*. In 2009, World Book created thousands of original Chinese-language articles providing information on many branches of knowledge, including arts, sciences, technology, mathematics, sports, and recreation, exclusively for our Chinese website. At December 31, 2010, we had published almost 14,700 articles in China.

In July 2010, we entered into a content distribution and branding relationship for our BoWenWang website with NetEase (NASDAQ: NTES), one of China's largest web portals with over 500 million page views per day. NetEase features our articles on a BoWenWang branded section of NetEase's portal. NetEase also provides promotional links as part of the relationship, directing users to BoWenWang for additional related content.

#### ***DailyStrength***

On October 20, 2009, we sold substantially all of the assets of DailyStrength to Sharecare as part of the Sharecare Transactions. We now provide services to Sharecare for the DailyStrength website. DailyStrength.org offers content authored by medical professionals based on current topics, support groups, a treatment directory with definitions, private messaging, message boards and personal goal trackers, and primarily serves English-speaking territories such as the United States, Canada, Australia and the United Kingdom. The medical panel of professionals contributes articles and journals providing insight to a number of topics relevant to the DailyStrength user group and communities. Additionally, DailyStrength offers users and members the opportunity to launch communities for groups of like-minded individuals regarding topics of personal significance using leading community tools to interact.

#### **Sales & Support**

We have sales operations in Brazil and China to service advertisers and customers for our businesses. We conduct sales for the websites in Brazil and China through a direct sales force, as well as strategic relationships with companies that can represent our advertising inventory.

#### **Marketing**

The primary business model for our websites is to sell advertising, sponsorships and related products and services. By focusing on providing high-quality web properties to end users in Brazil, China and the United States, we aim to establish a user base attractive to advertisers. We primarily sell advertising based on the quantity of views delivered to advertisers or the success of various advertising-related metrics.

Much of our marketing effort is in fostering word-of-mouth momentum by providing high-quality products and services and using public relations efforts. Additionally, we enter into relationships with local businesses to provide awareness of and traffic to our products and services. We also engage in advertising designed to inform potential users and customers about our products and services. We have not yet commenced any marketing activities for our Web Platform Services.

## **Competition**

The online publishing business is highly competitive. We encounter significant competition in each market in which we offer our products and services. Our competitors include (i) national Internet portals in China such as Baidu, Shanda Interactive Entertainment, Sina, sohu.com and tom.com, and (ii) national websites in Brazil such as Terra and UOL, all of which compete with us for online advertising revenue and end users.

Our Web Platform Services business provides services that relate to the design, development and operation of websites for Sharecare. We currently have a services contract with Sharecare that expires in December 2011. We are likely to be subject to competition from other website service providers in seeking to acquire other clients for this business. Website service providers vary in their offerings and the market is highly competitive due to low barriers to entry and a large number of competitors.

## **Intellectual Property**

We rely upon trademark, copyright and trade secret laws in various jurisdictions, as well as confidentiality procedures and contractual provisions to protect our proprietary assets and brand. We do not own any patent or copyright registrations. We hold various trademarks for our brands, and we have additional applications pending.

A number of threats exist to our intellectual property rights. Effective intellectual property protection may not be available in every country in which we intend to distribute products and services. Additionally, it may be time consuming and costly for us to protect our intellectual property, and even then such steps may not be sufficient or effective.

We license many technologies used in our businesses, including licenses to content owned by HowStuffWorks. Although we do not believe that our technologies or services infringe the proprietary rights of any third parties, we cannot ensure that third parties will not assert claims against us in the future or that these claims will not be successful. For a further discussion of our intellectual property rights, see "Risk Factors – We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business" in Part I, Item 1A of this Report.

## **Government Regulation**

Our operations in China and Brazil are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the Internet. Laws and regulations are being debated and considered for adoption in these countries and others throughout the world in areas relating to user privacy, freedom of expression, content, advertising, information security and intellectual property rights.

Additionally, the Internet infrastructures in China and Brazil are subject to regulatory control and, in the case of China, ownership by the Chinese government. The People's Republic of China, or PRC, regulates its Internet sector by enacting legislation or issuing regulations regarding the legality of foreign investment in the PRC Internet sector and the existence and enforcement of content restrictions on the Internet. We believe that our current ownership structure and localized content complies with PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and enforcement of PRC Internet laws and regulations. Accordingly, it is possible that the PRC government will ultimately take a view contrary to ours.

The PRC Ministry of Information Industry ("MIIT"), the Chinese governmental agency that regulates the Internet in China, has stated that the activities of Internet content providers are subject to regulation by various PRC government authorities, depending on the specific activities conducted by the Internet content provider. Various government authorities have stated publicly that they are in the process of preparing new laws and regulations that will govern these activities. The areas of regulation include, among others, online advertising, online news reporting, online publishing, online securities trading, online community, online video, and the provision of industry specific (e.g., drug-related) information over the Internet. Other aspects of our online operations may be subject to regulation in the future.

The MIIT also promulgated a directive, effective January 31, 2008, providing that online videos can only be broadcast or streamed by state-owned or controlled companies. The MIIT provided subsequent interpretation to exclude certain websites that existed prior to the directive. This directive may prevent our Chinese website from displaying online videos, which could have a material effect on



the business. During 2010, there were recent indications of an easing of restrictions for entry into China's business environment, which could reduce the time and cost required to obtain business licenses by a hypothetical new market participant.

Because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, even where we have no local entity, employees or infrastructure. This could also be detrimental to our business.

**Employees**

As of December 31, 2010, we had 66 employees located in: Atlanta, Georgia, USA; São Paulo, Brazil; and Beijing, China.

**Seasonality**

We expect our business to be affected by seasonal fluctuations in Internet usage and traditional retail seasonality. Internet usage generally slows during the summer months, and online shopping and related advertising typically increases in the fourth quarter of each year. These seasonal trends will likely cause fluctuations in quarterly results, including fluctuations in sequential revenue growth rates.

**Available Information**

Our website address is [www.hswinternational.com](http://www.hswinternational.com). Information on our website is not incorporated by reference herein and should not be considered a part of this report. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

## ITEM 1A. RISK FACTORS

This report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in this report. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this report and in any documents incorporated in this report by reference.

### *We continue to develop our business and prospects are difficult to evaluate.*

We have a limited operating history and our business strategy is evolving, so we have limited experience in the web platform, vertical website and international Internet markets. We are in varying development stages of our business, with a limited operating history upon which investors and others can evaluate our current business and prospects. Our prospects must be considered in light of the many risks, uncertainties, expenses, delays, and difficulties frequently encountered by companies in their early stages of development. Some of the risks and difficulties we expect to encounter include our ability to:

- successfully commercialize and monetize our assets;
- successfully attract advertisers for our websites and clients for our web platform services;
- continue to raise additional working capital, the lack of which would likely have a significant negative impact on our long term business plan and our ability to take advantage of our strategic alliances and to successfully execute our expansion plan;
- manage our expense structure as a U.S. public company including, without limitation, compliance with the Sarbanes Oxley and Dodd Frank Acts;
- manage the anticipated rise in operating expenses;
- manage and implement successfully new business strategies;
- adapt and successfully execute our evolving and unpredictable business model, with which we will have only limited experience;
- establish and take advantage of contacts and strategic relationships;
- adapt to our potential diversification into other industries and geographic regions;
- manage and adapt to rapidly changing and expanding operations;
- implement and improve operational, financial and management systems and processes;
- respond effectively to competitive developments;
- attract, retain and motivate qualified personnel; and
- manage each of the other risks set forth in this report.

Because of our lack of operating history and the early stage of development of our business, we will have limited insight into trends and conditions that may exist or emerge and affect our business, especially with respect to the web platform and online publishing market. We cannot be certain that our business strategy will be successful or that it will successfully address these risks. Any failure by us to successfully implement our new business plans could have a material adverse effect on our business, results of operations and financial condition.

### *We may not have sufficient liquidity to support the time required for our business to fully develop.*

The Company is in the process of developing global Internet businesses, including publishing businesses in two emerging markets, a web services business, and intends to pursue opportunities to plan, develop and build new content vertical websites in the United States. We currently operate at a loss and with a substantial negative cash flow from operations. While we believe that our cash resources on hand are sufficient to fund these businesses for a period of at least 12 months, our cash resources are not sufficient to fund these businesses for an extended period beyond that unless revenues increase significantly or we find other sources of capital, neither of which can be assured. Additionally, the development of our new content vertical website will require additional sources of capital for the Company. Our management and directors continue to evaluate our progress and likelihood of success in each of our

markets, and our ability to raise additional capital, against the relative value of our resources and other opportunities. Accordingly, we might decide to suspend our activities in one or more of our markets in order to focus our limited resources in the other(s). We may also need to raise additional funds for our business or the development of new initiatives, which may be dilutive to our stockholders.

***We may not be able to raise additional funds when needed for our business or to exploit opportunities.***

We may need to raise additional funds to support expansion, develop new or enhanced applications and services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. If required, we may attempt to raise such additional funds through public or private debt or equity financing, strategic relationships or other arrangements such as the revolving credit agreement entered into in March 2011 and further described in the Liquidity and Capital Resources section of this Form 10-K. In addition to this revolving credit agreement, there can be no assurance that such financing will be available on acceptable terms, if at all, or that such financing will not be dilutive to our stockholders.

***If we default on our credit facility, we might incur substantial penalties and impair our ability to raise additional capital.***

In March 2011 we entered into a senior revolving credit agreement with Theorem Capital, LLC under which Theorem Capital extended us a line of credit of up to \$1.0 million for a period of one year, subject to renewal. Our credit agreement contains covenants that we consider usual and customary for an agreement of this type, including restrictions on incurring additional indebtedness, maximum trade obligations and accrued expenses and other current liabilities, use of loan proceeds and payment of dividends. Upon the occurrence of an event of default, including payment defaults, breaches of covenants, insolvency proceedings and events having a material adverse effect on our financial condition, business assets, operations or property, Theorem Capital may declare all outstanding obligations under the credit agreement due and payable and the aggregate unpaid principal balance of any borrowings, and any other obligations under the credit agreement will bear interest at a default rate of 11% per annum until the event of default is waived or cured or all outstanding obligations are paid in full. Additionally, if we were to default on the credit agreement, it could subject us to lawsuits, deplete our cash reserves, and hinder our ability to raise additional capital in the future. If we breach our covenants or otherwise default on this credit agreement, it could have an adverse impact on our financial condition, which could in turn have an adverse effect on the price of our stock.

***Our new web platform services line of business may not prove to be profitable.***

We intend to offer web platform services to other customers, but we have limited sales, marketing and other resources and may not be successful in obtaining those customers. Because Sharecare and Discovery Communications the customers generating virtually all of our web platform services revenue to date are related parties, the pricing and other terms included in those current agreements may not be indicative of the terms we can successfully obtain in arms-length transactions with other customers. We have limited experience in this line of business, and will be subject to competition with companies with greater resources and experience. Due to these factors, we may be unable to achieve profitability in this new line of business.

***We may not be able to successfully establish a personal finance content vertical website.***

We intend to develop, launch and operate a personal finance content vertical website leveraging the Web 3.0 platform developed by HSWI. We have limited experience in personal finance, and limited sales, marketing, and other resources related to the operations and revenue generation for a United States-based website. Additionally, we expect steep competition from established sources for financial information on the Internet.

***Our services agreement with Sharecare, which provided the vast majority of our 2010 revenue, will expire at the end of the year.***

We currently provide web development, design and management services to Sharecare under a services agreement which provided approximately 90% of our revenues for 2010. This agreement will expire in December 2011, and we do not expect the Company and Sharecare will extend the term or enter into a new services agreement. As Sharecare has developed its operations and grown, it has made the strategic decision to transition these web development, design and management services inhouse. This expiration will cause us to lose a significant source of revenue, which would hurt our financial results and condition if the revenue is not replaced with other sources.

***We generate revenue on our international sites from advertising, and the reduction in spending by or loss of advertisers could seriously harm our business.***

Economic uncertainty as well as the risk associated with an emerging market has had and might continue to have a direct impact on our revenue. We cannot predict the timing, strength or duration of the current economic issues or the subsequent economic recovery generally or in the online advertising market. If the economy or markets in which we operate worsen, our business, financial condition and results of operations will likely be materially and adversely affected. Our advertisers can generally terminate their contracts with us at any time. Advertisers will not continue to do business with us if their investment in advertising with us does not generate sales leads, and ultimately customers, or if we do not deliver their advertisements in an appropriate and effective manner. If we are unable to be competitive and provide value to our advertisers, they may stop placing ads with us, which would negatively harm our revenues and business. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Any decreases in or delays in advertising spending due to general economic conditions could reduce our revenues or negatively impact our ability to grow our revenues.

***We may not succeed in marketing and monetizing our international assets to potential customers or developing strategic partnerships for the distribution of our products and services.***

Our plans to market and monetize our assets in the Chinese and Brazilian online markets through the Internet are still relatively new and unproven. Moreover, we will have limited experience in determining the pricing of the products and services that we plan to develop. We may not be successful in establishing a customer base or strategic partnerships for the distribution of our products and services. If we are not successful in developing, releasing and marketing these products and services on a profitable basis, our results of operations would be materially and adversely affected.

We may not have the resources available to simultaneously develop operations in China and Brazil. Accordingly, there may be a delay in developing such operations or we might decide not to pursue these markets, which could affect our business plan and results of operations.

***We could incur asset impairment charges for intangible assets or other long-lived assets.***

We have intangible assets and other long-lived assets, therefore future financial performance lower than anticipated or changes in estimates and assumptions, which in many cases require significant judgment, could result in impairment charges. We test intangible assets that are determined to have an indefinite life for impairment on a reporting unit basis during the fourth quarter of each fiscal year, and assess whether factors or indicators, such as unfavorable variances from established business plans, significant changes in forecasted results or volatility inherent to external markets and industries, become apparent that would require an interim test. Adverse changes in the operating environment and related key assumptions used to determine the fair value of our indefinite lived intangible assets or declines in the value of our common stock may result in future impairment charges for a portion or all of these assets. For example in December 2010 we recorded an impairment charge of \$488,560, primarily because of changes in our assumptions as to the time and cost required to obtain licenses to operate in China similar to the ones we hold today. In addition, if the rate of growth of advertising revenues earned by our China operations were to be less than projected or if additional regulatory changes in China were to negatively impact our business, an impairment charge for a portion or all of the assets may be required. An impairment charge could have a material adverse effect on our business, financial position and results of operations, but would not be expected to have an impact on our cash flows or liquidity.

***The growth we seek is difficult to achieve and will place significant strain on our resources.***

Substantial future growth will be required in order for us to realize our business objectives. Growth of this magnitude is rare. To the extent we are capable of growing our business as necessary, we expect that such growth will place a significant strain on our managerial, operational and financial resources. We must manage our growth, if any, through appropriate systems and controls in each of these areas. We must also establish, train and manage a larger work force. If we do not manage the growth of our business effectively, our business, results of operations and financial condition could be materially and adversely affected.

***We face intense competition, which could have an adverse effect on our business, financial condition and results of operations.***

The online publishing and web platform services markets are highly competitive. We encounter significant competition across our business lines and in each market in which we offer our products and services. In the online publishing market, we expect that our competitors include (i) national Internet portals in China such as Baidu, Shanda Interactive Entertainment, Sina, sohu.com and tom.com, and (ii) national websites in Brazil such as Terra and UOL, all of which compete with us for online advertising revenue and end users. Many of our competitors have more experience, resources and website visitors than us. In the vertical website and web platform services markets, many of our competitors have been providing similar services for an extended period of time, and have developed established brands, reputations, offerings, and client bases. Most of our vertical website and web platform services competitors have more experience and resources than we do.

***Resales of our common stock and additional obligations to issue our common stock may cause the market price of our stock to fall.***

As of December 31, 2010, there were approximately 5,375,455 shares of our common stock outstanding, and options and warrants to purchase another approximately 971,700 shares outstanding. At December 31, 2010, we also had reserved an additional 120,318 shares for future issuance under our equity compensation plans. Resales of outstanding shares or issuance of new shares could depress the market price for our common stock.

***Various factors could negatively affect the market price or market for our common stock.***

The market for and price of our common stock could be affected by the following factors:

- general market and economic conditions;
- our common stock has been thinly traded; and
- minimal third party research is available regarding our company.

Additionally, the terms of the Discovery Merger provided that payment to HowStuffWorks shareholders for a significant portion of HowStuffWorks' ownership of our common stock would not be paid at the October 2007 closing of the transaction and instead are payable to HowStuffWorks' former shareholders in three semi-annual installments. The installments were planned to begin in October 2008; however, the shareholder representative had not authorized payment as of December 31, 2010. Such payments will be in the form of cash or shares of HSWI stock now held by HowStuffWorks. Accordingly, the amount of shares of our common stock Discovery owns in the future may fall due to a combination of reasons. All of our rights to publish HowStuffWorks content will remain effective regardless of the number of shares HowStuffWorks owns in the future. If Discovery and HowStuffWorks' former shareholders' representative elect to distribute shares of our common stock to former HowStuffWorks shareholders, a significant number of shares may be sold by such shareholders relative to the daily market trading volumes for our common stock. These factors could also affect our common stock, and depress the market price for our common stock or limit the market for resale of our common stock.

***We might not be able to remain listed on The NASDAQ Stock Market.***

In September 2009, we received a notice from The NASDAQ Stock Market indicating that we no longer complied with the continued listing requirement that our shares of common stock maintain a minimum closing bid price of \$1.00. In response, we conducted the Reverse Split and regained compliance with continued listing standards. In March 2010 the Company received a notice from The NASDAQ Stock Market indicating that we were not in compliance with the continued listing requirement that the publicly held shares of the Company, which is calculated by subtracting all shares held by officers, directors or beneficial owners of 10% or more of the total shares outstanding, maintain a minimum market value of \$5,000,000. On July 28, 2010, the Company received a notice from The NASDAQ Stock Market indicating that it had regained compliance with this rule. However, our common stock might not remain equal to or in excess of the \$1.00 minimum closing bid price or our public float might drop below \$5,000,000, either of which could result in our common stock being de-listed from the NASDAQ Global Market. The market price of our common stock is also based on other factors outside of our control.

***Our internal control over financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur.***

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be satisfied. Internal control over financial reporting and disclosure controls and procedures are designed to give a reasonable assurance that they are effective to achieve their objectives. We cannot provide absolute assurance that all of our possible future control issues will be detected. These inherent limitations include the possibility that judgments in our decision making can be faulty, and that isolated breakdowns can occur because of simple human error or mistake. The design of our system of controls is based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed absolutely in achieving our stated goals under all potential future or unforeseeable conditions. Because of the inherent limitations in a cost effective control system, misstatements due to error could occur and not be detected.

***We may have additional tax liabilities if tax positions we have taken in prior years are challenged.***

Although the company has not been a substantial tax payer to date, we and our subsidiaries are subject to taxes in the United States and various foreign jurisdictions. We believed that our tax returns appropriately reflected our tax liability when those tax returns were filed. However, applicable tax authorities may challenge our tax positions. Any successful challenge to one or more of our prior tax positions could result in a material tax liability to us or to one or more of our subsidiaries, including INTAC, for one or more prior years.

***The state of the Internet infrastructure in China and Brazil may limit our growth.***

We rely on the Internet for our business, including the publication of content online and our Internet portals. The Internet infrastructures in China and Brazil are not well developed and are subject to regulatory control and, in the case of China, ownership by the Chinese government. The cost of Internet access is high relative to the average income in China. Failure to further develop these infrastructures could limit our ability to grow. Alternatively, as these infrastructures improve and Internet use increases, we may not be able to scale our systems proportionately. Our reliance on these infrastructures makes us vulnerable to disruptions or failures in service, without sufficient access to alternative networks and services. Such disruptions or failures could reduce our user satisfaction. Should these risks be realized, our ability to increase revenues and profitability would be impaired.

***Our operations are vulnerable to natural disasters and other events.***

While we believe we have adequate backup systems in place, we could still experience system failures and electrical outages from time to time in the future, which could disrupt our operations. All of our servers and routers are currently hosted in a single location which poses site redundancy risk. Although our site is a Tier 4 data center, which is composed of multiple active power and cooling distribution paths, has redundant components, is fault tolerant, and provides 99.995% availability, we do not have a documented disaster recovery plan in the event of damage from fire, flood, typhoon, earthquake, power loss, telecommunications failure, break in or similar events. If any of the foregoing occurs, we may experience a temporary system shutdown. If there is significant disruption or damage to the data center hosting our web servers, our ability to provide access to our websites would be interrupted. We do not

carry any business interruption insurance. Although we carry property insurance, our coverage may not be adequate to compensate us for all losses, particularly with respect to loss of business and reputation that may occur.

***Our network operations may be vulnerable to hacking, viruses and other disruptions, which may make our products and services less attractive and reliable.***

Internet usage of our products could decline if any well publicized compromise of our security occurs. “Hacking” involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. Hackers, if successful, could misappropriate proprietary information or cause disruptions in our service. We may be required to expend capital and other resources to protect our website against hackers. If our security measures are breached as a result of third-party action, employee error or otherwise, we could incur liability and our reputation would be damaged, which could lead to the loss of current and potential customers. If we experience any breaches of our network security or sabotage, we might be required to expend significant capital and other resources to remedy, protect against or alleviate these and related problems, and we may not be able to remedy these problems in a timely manner, or at all. Because techniques used by outsiders to obtain unauthorized network access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. We cannot assure you that any measures we may take will be effective. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability, as well as materially damage our reputation and decrease our user traffic.

***Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.***

We regard our copyrights, service marks, trademarks, trade secrets and other intellectual property as critical to our success. Unauthorized use of our intellectual property by third parties may adversely affect our business and reputation. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it is possible for third parties to obtain and use our intellectual property without authorization. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet related industries are uncertain and still evolving. In particular, the laws of the PRC, Brazil and other countries are uncertain or do not protect intellectual property rights to the same extent as do the laws of the United States. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Future litigation could result in substantial costs and diversion of resources.

***We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, materially disrupt our business.***

We cannot be certain that our products and services will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may in the future be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. In particular, if we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and may incur licensing fees or be forced to develop



alternatives. We may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liability or may materially disrupt the conduct of our business.

***Our sublicensed content is subject to the terms and conditions of agreements between HowStuffWorks and third parties.***

Under the terms of our contribution agreements, HowStuffWorks transferred and contributed to us all rights, but only those rights, that belong to and are held by HowStuffWorks pursuant to third-party licenses. Some of those licenses, including those with Publications International, Ltd., contain restrictions on the use of content and termination provisions for breaches of the license agreements. Accordingly, a breach of any third party license by HowStuffWorks may cause us to lose our license with such third party, which could have a material adverse effect on the implementation of our business plan, value of our content offering and results of our operations.

***A slowdown or other adverse developments in the PRC or Brazil economy may materially and adversely affect our customers, demand for our services and our business.***

We may be sensitive to a slowdown in economic growth or other adverse changes in the PRC and Brazil economies. This is particularly true in light of current financial and economic uncertainties. In response to adverse economic developments, companies have reduced spending on marketing and advertising. As a result, a slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in China or Brazil may materially reduce the demand for our services and materially and adversely affect our business.

***PRC laws and regulations related to the PRC Internet sector are unclear and will likely change in the near future. If we are found to be in violation of current or future PRC laws or regulations, we could be subject to severe penalties.***

The PRC regulates its Internet sector by making pronouncements or enacting regulations regarding the legality of foreign investment in the PRC Internet sector and the existence and enforcement of content restrictions on the Internet. There are substantial uncertainties regarding the interpretation of current PRC Internet laws and regulations, including those discussed below.

The PRC enacted regulations applying to Internet related services and telecommunications related activities. While many aspects of these regulations remain unclear, they purport to limit and require licensing of various aspects of the provision of Internet information services. The Ministry of Information Industry, or MII, has also stated that the activities of Internet content providers are subject to regulation by various PRC government authorities, depending on the specific activities conducted by the Internet content provider. Various government authorities have stated publicly that they are in the process of preparing new laws and regulations that will govern these activities. The areas of regulation currently include online advertising, online news reporting, online publishing, online securities trading and the provision of industry specific (e.g., drug related) information over the Internet. Other aspects of our online operations may be subject to regulation in the future.

Under the agreement reached in November 1999 between the PRC and the United States concerning the United States' support of China's entry into the World Trade Organization, or the WTO, foreign investment in PRC Internet services was to be liberalized to allow for 30% foreign ownership in key telecommunication services, including PRC Internet ventures, for the first year after China's entry into the WTO, 49% in the second year and 50% thereafter. China officially entered the WTO on December 11, 2001. However, the implementation of China's WTO accession agreements is still subject to various conditions.

The interpretation and application of existing PRC laws and regulations, the directives of the MII and the possible new laws or regulations have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, PRC Internet companies, including us. Accordingly, it is possible that the relevant PRC authorities could, at any time, assert that any portion or all of our ownership structure and business violate existing or future PRC laws, regulations or policies. It is also possible that the new laws or regulations governing the PRC Internet sector that have been adopted or may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, any of our proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied to us.

If we are found to be in violation of any existing or future PRC laws or regulations, the relevant PRC authorities would have broad discretion in dealing with such violation, including, without limitation, the following:

- levying fines;
- confiscating our income;
- revoking our business licenses;
- pursuing criminal sanctions against our business and personnel;
- shutting down our servers and/or blocking our websites;
- requiring us to restructure our ownership structure or operations; and
- requiring us to discontinue any portion or all of our Internet business based in China.

Any of these actions could have a material adverse effect on our financial condition and results of operations.

***A 2006 regulation establishes more complex procedures in the PRC for acquisitions conducted by foreign investors, which could make it more difficult for us to pursue growth through acquisitions.***

In August 2006, six PRC regulatory agencies - the PRC Ministry of Commerce, or the MOC, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the Chinese State Administration for Foreign Exchange, or SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which became effective in September 2006. Among other things, the new regulations established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requiring in some instances that the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Additional regulations adopted in February 2011 provide for national security review of merger and acquisition transactions. We may grow our business in part by directly acquiring complementary businesses in China. Complying with the requirements of the new regulations could be time-consuming, and any required approval processes, including obtaining approval from the MOC, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***We face risks related to health epidemics and other outbreaks, particularly in the PRC.***

Our business could be adversely affected by outbreaks of avian influenza, SARS or other widespread diseases. Many users of our Websites, especially in China, access the Internet at public cafes. Any prolonged recurrence of avian influenza, SARS or other widespread disease in China could prompt the government to restrict people's movements, limit gathering in public places, or otherwise prevent our users from accessing Internet cafes. If our users cannot access Internet cafes, or we are unable to staff our office in China, our business operations could be materially affected. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian influenza, SARS or any other epidemic.

***We may incur administrative and staffing cost due to the PRC's new labor contract law.***

In 2007 the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective in January 2008. The Labor Contract Law's goal is to improve job security and to protect the rights and interests of employees. In order to fully comply with the legal requirements under the Labor Contract Law, we may incur administrative and staffing cost, which could adversely affect our results of operations.

***The online advertising markets in China and Brazil are still developing and present risk to our revenues to be generated from our online publishing business.***

We expect our online publishing businesses in China and Brazil to derive significant revenue from online advertisements. The online advertising markets in China and Brazil are still developing, and future growth and expansion of these markets is uncertain. If these online advertising markets do not grow at expected rates, our results of operations and financial condition will be materially adversely affected.

***Our international operations subject us to other significant risks including unpredictable governmental regulation in China and Brazil.***

Our international operations expose us to a wide variety of other risks including increased credit risks, customs duties, import quotas and other trade restrictions, potentially greater inflationary pressures, and the risk of failure or material interruption of wireless systems and services. Changes may occur in foreign trade and investment laws in the territories and countries where we will operate. U.S. laws and regulations relating to investment and trade in foreign countries could also change to our detriment. Any of these factors could materially and adversely affect our revenues and profits.

We are subject to risk of political instability and trade sanctions within China. China has traditionally been a closed market with strict political controls. As China shifts to a market economy, growing economic and social freedoms may conflict with the more restrictive political and governmental policies. In addition, democratic countries throughout the world have, from time to time, attempted to use economic and other sanctions to achieve political or social change in other countries. Each of these factors could

result in economic sanctions, economic instability, the disruption of trading and war within China and the Asia Pacific Rim, any of which could result in our inability to conduct business operations in China. Because we expect a substantial amount of our business to be within China in the long term, the disruption of distribution channels into China would have material and adverse consequences to our business.

In the past, the Brazilian government has intervened in the Brazilian economy and occasionally made drastic changes in economic policy. The Brazilian government's actions to control inflation and affect other policies have included high interest rates, wage and price controls, currency devaluations, capital controls and limits on exports, among other actions. Our business, financial condition, revenues, results of operations, prospects and the market price of our securities may be adversely affected by changes in Brazilian government policies, as well as general economic factors, including:

- currency fluctuations;
- exchange controls and restrictions on remittances abroad, such as those that were briefly imposed on such remittances (including dividends) in 1989 and in the beginning of 1990;
- inflation;
- price instability;
- energy policy;
- interest rate increases;
- liquidity of domestic capital and lending markets;
- changes in tax policy; and
- other political, domestic, social and economic developments in or affecting Brazil.

Also, the President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses operating in Brazil. We have no control over, and cannot predict what policies or actions the Brazilian government may take in the future.

Further risks relating to international operations include, but are not restricted to, unexpected changes in legal and regulatory requirements, changes in tariffs, exchange rates and other barriers, political and economic instability, possible effects of war and acts of terrorism, difficulties in accounts receivable collections, difficulties in managing distributors or representatives, difficulties in staffing and managing international operations, difficulties in protecting our intellectual property overseas, seasonality of sales and potentially adverse tax consequences. Any of these factors could materially and adversely affect our revenues and profits.

***Restrictions on currency exchange may limit our ability to utilize our revenues effectively.***

Some of our revenues and operating expenses are denominated in Chinese *Renminbi*. Currently, we may purchase foreign exchange for settlement of "current account transactions" without the approval of the SAFE. We may also retain foreign exchange in our current account (subject to a ceiling approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future.

Additionally, some of our revenues and operating expenses are denominated in Brazilian *Reais*. Brazilian law allows the Brazilian government to impose restrictions on the conversion of the *Real* into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. The government may impose such restrictions whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance. The Brazilian government last imposed remittance restrictions for approximately six months in 1989 and early 1990. The likelihood that the Brazilian government would impose such restrictions again depends on the extent of Brazil's foreign currency reserves, the availability of foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, Brazil's policy toward the International Monetary Fund and other factors.

Since a portion of our revenues will be denominated in *Renminbi*, existing and future restrictions on the exchange of *Renminbi* to other currencies may limit our ability to use revenue generated in *Renminbi* to fund our business activities outside China, if any, or expenditures denominated in foreign currencies. Similarly, in the event that a significant amount of our revenues are denominated in *Reais*, any future restrictions on the exchange of *Reais* for other currencies or the remittance to foreign investors of proceeds from their investments in Brazil may limit our ability to use revenue generated in *Reais* to fund our business activities outside Brazil, or expenditures denominated in foreign currencies.

***We are subject to risks of currency fluctuations and exchange restrictions.***

Currency fluctuations, devaluations and exchange restrictions may adversely affect our liquidity and results of operations. In some countries, local currencies are not readily converted into Euros or U.S. dollars (or other "hard currencies") or are only converted at government controlled rates, and, in some countries, the transfer of hard currencies offshore has been restricted from time to time. Very limited hedging transactions are available in China to reduce its exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure, if at all. Our revenues as expressed in our U.S. dollar financial statements will decline in value if *Renminbi* or *Reais* depreciate relative to the U.S. dollar. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert *Renminbi* into U.S. dollars or by Brazilian exchange control regulations that restrict our ability to convert *Reais* into U.S. dollars.

China recently announced that it will allow its currency to trade more freely and no longer carry a value as closely associated with that of the U.S. Dollar as it has in the past. It is possible that such de-coupling will increase the relative value of the *Renminbi* to the U.S. Dollar, resulting in our incurring higher costs in China due to the higher cost of exchanging U.S. Dollars for *Renminbi* and our funding our China operations from U.S. Dollars held in our treasury.

***Regulation and censorship of information collection and distribution in China may adversely affect our business.***

China has enacted regulations governing Internet access and the distribution of news and other information. Furthermore, the Propaganda Department of the Chinese Communist Party has been given the responsibility to censor news published in China to ensure, supervise and control a particular political ideology. In addition, the MII has published implementing regulations that subject online information providers to potential liability for content included on their portals and the actions of subscribers and others using

their systems, including liability for violation of PRC laws prohibiting the distribution of content deemed to be socially destabilizing. Because many PRC laws, regulations and legal requirements with regard to the Internet are relatively new and untested, their interpretation and enforcement involve significant uncertainty. In addition, the PRC legal system is a civil law system in which decided legal cases have limited binding force as legal precedents. As a result, in many cases it is difficult to determine the type of content that will result in liability for a website operator.

Periodically, the Ministry of Public Security has stopped the distribution over the Internet of information which it believes to be socially destabilizing. The Ministry of Public Security has the authority to cause any local Internet service provider to block any website maintained outside China at its sole discretion. If the PRC government were to take action to limit or eliminate the distribution of information through our portals or to limit or regulate current or future applications available to users of our portals, our business would be adversely affected.

The State Secrecy Bureau, which is directly responsible for the protection of state secrets of all PRC government and Chinese Communist Party organizations, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information. Under the applicable regulations, we could be held liable for any content transmitted on our portal. Furthermore, where the transmitted content clearly violates the laws of the PRC, we will be required to delete it, and where the transmitted content is considered suspicious, we are required to report such content. We must also undergo computer security inspections, and if we fail to implement the relevant safeguards against security breaches, our operations in the PRC could be shut down.

Although the PRC has several laws and regulations relating to the use of the Internet, addressing personal privacy in use of the Internet and the freedom of communications, the PRC government does not restrict online service providers in the collection, transmission and commercial use of personal information or data. Personal data is protected from unlawful use by general statutes and by any contractual arrangement between the user and the service provider.

Since spring of 2005, the National People's Congress and the State Council have begun legislative review of a draft Law for Protection of Personal Information which provides a wider scope of information protection than that required to protect the personal privacy of a citizen. Cellular phone number, home address, medical files and occupational information will all be protected under the draft law. The draft further provides that usage of such personal information by service providers (excluding the national security authority, research institutions, and news agency) shall be subject to the prior authorization of each individual and violation under this law could result in administrative, civil, and even criminal liabilities. If regulations are adopted addressing the collection, transmission and commercial use of personal information or data, we could be subject to these penalties, aspects of our business plan could no longer be viable and our business would thus be adversely affected.

***Potential additional Chinese regulation could affect our business in China.***

The Ministry of Information Industry, the Chinese governmental agency that regulates the Internet in China, promulgated a directive effective January 31, 2008, providing that online videos can only be broadcast or streamed by state-owned or controlled companies. Subsequently, the Ministry of Information Industry acted to provide exceptions for certain non-state-owned or controlled companies.

While it is possible that our Chinese website would not be permitted to display online videos, which could have a material effect on the content provided on such website, it is not yet clear what, if any, effect this regulation has upon our business in China.

***Political and economic policies of the PRC government could affect our business.***

A portion of our business, assets and operations are located in China and a significant portion of our future revenues are expected to be derived from our operations in China. Accordingly, our business could be adversely affected by changes in political, economic or social conditions in China, adjustments in PRC government policies or changes in laws and regulations.

The economy of China differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development in a number of respects, including:

- structure;
- level of government involvement;
- level of development;
- level of capital reinvestment;
- growth rate;
- control of foreign exchange; and
- methods of allocating resources.

Since 1949, China has been primarily a planned economy subject to a system of macroeconomic management. Although the Chinese government still owns a significant portion of the productive assets in China, economic reform policies since the late 1970s have emphasized decentralization, autonomous enterprises and the utilization of market mechanisms. We cannot predict what effects the economic reform and macroeconomic measures adopted by the Chinese government may have on our business or results of operations.

***The PRC legal system embodies uncertainties which could limit the legal protections available to us.***

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. We are subject to laws and regulations applicable to foreign investment in mainland China. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and other foreign investors. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the Internet, our ownership structure and currency exchange, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

***If may be difficult to enforce any civil judgments against us, because in the future a significant portion of our assets could be located outside of the United States.***

Although the combined company is incorporated in the State of Delaware, in the future a substantial portion of our assets could be located in Brazil and the PRC. As a result, it may be difficult for investors to enforce outside the United States any actions brought against us in the United States, including actions predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. In addition, certain of our directors and officers a portion of their assets may be located outside the United States (principally in Brazil and the PRC). As a result, it may not be possible for investors to effect service of process within the United States upon those directors and officers, or to enforce against them or us judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. There is doubt as to the enforceability in Brazil and the PRC, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States or the securities laws of any state of the United States.

***If we are not able to attract and retain key management and consultants, we may not successfully integrate the contributed assets into our historical business or achieve our other business objectives.***

We will depend upon our senior management and consultants for our business success. The loss of the service of any of the key members of our senior management may significantly delay or prevent the integration of the contributed assets and other business objectives. Our ability to attract and retain qualified personnel, consultants and advisors will be critical to our success. We may not be able to attract and retain these individuals, and our failure to do so would adversely affect our business.

***The concentration of our stock ownership will likely limit your ability to influence corporate matters.***

HowStuffWorks, a subsidiary of Discovery, beneficially owns a significant percentage of our outstanding common stock and entered into a stockholders agreement. The stockholders agreement entitles HowStuffWorks to designate nominees to our Board of Directors. Furthermore, James Rosenstock, a member of the Board, is Senior Vice President, Corporate Development at Discovery Communications. As a result, Discovery has the ability to influence our management and affairs and determine the outcome of matters submitted to stockholders for approval, including the election and removal of directors, amendments to the charter, approval of equity-based employee compensation plans and any merger, consolidation or sale of all or substantially all of our assets. The interests of Discovery and its affiliates may materially conflict with the interests of other shareholders. For as long as they exert a significant influence over our business affairs, they will have the ability to cause us to take actions that may be adverse to the interests of other shareholders or inconsistent with other shareholders' investment objectives.



*The concentration of our stock ownership, as well as our Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws, stockholders agreement and Delaware law contain provisions that may make our acquisition more difficult without the approval of our board of directors, which could discourage, delay or prevent a transaction involving our change of control.*

As of December 31, 2010, Discovery owned approximately 42.7% of our outstanding shares of common stock through its HowStuffWorks subsidiary. As a result, it will be difficult for our other stockholders to approve a takeover of us without the cooperation of Discovery.

Furthermore, our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws contain anti-takeover provisions, including but not limited to the following provisions:

- only our Board of Directors may call special meetings of our stockholders;
- our stockholders may take action only at a meeting of our stockholders and not by written consent;
- we have authorized undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- SEC Rule 14a-8 requires that we receive notice of stockholder proposals at least 120 days prior to the date of our proxy statement for the previous year's annual meeting or we do not have to include them in our proxy materials; and
- for stockholder proposals not requested to be included in our proxy materials under Rule 14a-8, we require advance notice of not less than 60 nor more than 90 days prior to a meeting for the proposal to be introduced and considered.

In addition, the stockholders agreement gives HowStuffWorks the right to designate nominees to our Board of Directors.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change of control of us. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to cause us to take other corporate actions you desire.

Section 203 of the Delaware General Corporation Law may also delay, defer or prevent a change in control that our stockholders might consider to be in their best interest. We are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits "business combinations" between a publicly-held Delaware corporation and an "interested stockholder," which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock for a three-year period following the date that such stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control of us that our stockholders consider to be in their best interest.

***Acquisitions, business combinations and other transactions present integration risk and may have negative consequences for our business and our stockholders.***

The process of integrating acquired businesses into our existing operations may result in unforeseen difficulties and liabilities and may require a disproportionate amount of resources and management attention. Difficulties that we encounter in integrating the operations of acquired businesses could have a material adverse effect on our results of operations and financial position. Moreover, we may not realize any of the anticipated benefits of an acquisition and integration costs may exceed anticipated amounts. We may enter into joint ventures, strategic alliances or similar arrangements with third parties. These transactions result in changes in the nature and scope of our operations and changes in our financial condition. Financing for these transactions may come from cash on hand, proceeds from the issuance of additional common stock or proceeds from debt financing.

The issuance of additional equity or debt securities could:

- cause substantial dilution of the percentage ownership of our stockholders at the time of the issuance;
- cause substantial dilution of our earnings per share;
- subject us to the risks associated with increased leverage;
- subject us to restrictive covenants that could limit our flexibility in conducting future business activities; and
- adversely affect the prevailing market price for our outstanding securities.

***Our investment in Sharecare's equity securities involves a substantial degree of risk.***

Our investment in Sharecare's equity securities is illiquid and might fail to appreciate and might decline in value or become worthless. Our Sharecare equity securities likely will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of Sharecare. Sharecare is a recently-formed company with limited history of operations. Its prospects must be considered in light of the many risks, uncertainties, expenses, delays and difficulties encountered by companies in their early stages of development. Moreover, Sharecare operates in the highly competitive internet industry and might not achieve profitability or consumer acceptance in the near-term, if ever.

Even if Sharecare is successful, our ability to realize the value of our investment might be limited. Because it is a private company, there is no public market for Sharecare's securities, and the Sharecare securities are subject to restrictions on resale that might prevent us from selling these securities during periods in which it would be advantageous to do so. As a result, we might have to wait for a liquidity event, such as a public offering or the sale of Sharecare, to realize the value of our investment, if any. It is likely to take a significant amount of time before a liquidity event occurs.

Sharecare may need to raise additional capital, and our equity position in Sharecare may be diluted if Sharecare issues additional equity, options, or warrants. If Sharecare makes a capital call of its existing equity holders, our position may be diluted if we choose not to contribute additional capital. During Sharecare's most recent round of capital raises we purchased an option to maintain our equity position in Sharecare; the exercise of this option would increase our current ownership of approximately 16.5% to approximately 18%, assuming there is no other change in Sharecare's issued and outstanding equity.

*Two of our stockholders also have substantial Sharecare investments, and potential conflicts of interests could harm us.*

Jeff Arnold, a member of the Board of Directors until June 2010 and Chief of Global Digital Strategy for Discovery, the parent company of HowStuffWorks, together with Discovery beneficially own over 40% of our common stock. Both Mr. Arnold and Discovery own significant interests in Sharecare and serve on the board of directors of Sharecare, and Mr. Arnold is also Chairman and Chief Architect of Sharecare. As a result, Mr. Arnold and Discovery have the ability to significantly influence and manage the affairs of both HSWI and Sharecare and determine the outcome of matters submitted for approval to stockholders of each company. If HSWI and Sharecare's interests diverge, there is a risk that Mr. Arnold or Discovery will favor actions by Sharecare that are adverse to HSWI. James Rosenstock, a member of our board of directors, is Senior Vice President, Corporate Development for Discovery. As a member of our board, Mr. Rosenstock's position with Discovery will disqualify him from some deliberations of our board. If HSWI and Sharecare's interests diverge, there is a risk that Mr. Rosenstock will favor actions by Sharecare that are adverse to HSWI.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Our corporate headquarters are located at 3280 Peachtree Road, Suite 600, Atlanta, Georgia, which consists of approximately 12,000 square feet of leased space. At December 31, 2010, we also leased approximately 2,500 square feet in Beijing, China, and approximately 500 square feet in Sao Paulo, Brazil. We do not own any real property. We believe that our existing facilities are adequate to meet our needs in the near term.

As of December 31, 2010, our current total remaining lease obligations were U.S. \$1,461,339.

#### **ITEM 3. LEGAL PROCEEDINGS**

We are not subject to any material pending legal proceeding, nor are we aware of any material threatened claims against us.

#### **ITEM 4. RESERVED**

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been traded on the NASDAQ Global Market under the symbol "HSWI" since October 2, 2007. The following table sets forth the high and low sales prices of our common stock, as reported on the NASDAQ Global Market. Stock prices, as presented below, have been retroactively restated to reflect HSWI's February 2010 10-for-1 reverse stock split. See Note 9, "Stockholders Equity" of the financial statements.

	<b>High</b>	<b>Low</b>
<b>Year ended December 31, 2009</b>		
First Quarter	\$ 4.70	\$ 0.80
Second Quarter	4.70	1.50
Third Quarter	6.80	1.90
Fourth Quarter	5.10	2.70
<b>Year ended December 31, 2010</b>		
First Quarter	\$ 2.36	\$ 1.36
Second Quarter	2.40	1.54
Third Quarter	7.49	1.77
Fourth Quarter	7.38	3.76

#### Holders of Record

As of March 29, 2011, the last sale price of our common stock on NASDAQ Global Market was \$3.05 per share. As of March 29, 2011, there were approximately 20 stockholders of record.

#### Dividend Policy

We have neither paid nor declared dividends on our common stock since our inception and do not plan to pay dividends in the foreseeable future. Any earnings that we may realize will be retained to finance our growth.

#### Reverse Stock Split

On February 16, 2010, the Company conducted a reverse split of its common stock, par value \$0.001, at a ratio of 10-for-1 (the "Reverse Split"), at which time each share of common stock was automatically reclassified as and converted into one-tenth of a share of common stock. Each stockholder's percentage ownership in the Company and proportional voting power remained unchanged by the Reverse Split, except for those adjustments resulting from stockholders receiving cash in lieu of fractional shares. In connection with the Reverse Split, the number of authorized shares of the Company's capital stock was reduced accordingly by a ratio of 10-for-1. For comparability purposes, all references to HSWI stock within this document have been adjusted to reflect the effects of the Reverse Split, unless otherwise indicated.

#### Equity Compensation Plans

The information required by Item 5 of Form 10-K regarding equity compensation plans is incorporated herein by reference to "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth consolidated financial data with respect to us as of and for the years ended December 31, 2010, and 2009. The selected consolidated financial data below should be read in conjunction with the audited consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7. Our historical financial data is difficult to compare from period to period because of the Sharecare transactions we have recently consummated, as described in this Annual Report.

**Consolidated Statement of Operations Data:**

	Years Ended December 31,	
	2010	2009
Operating revenue (Note 11)	\$ 6,655,064	\$ 2,259,816
Cost of services	5,405,128	2,869,509
Gross margin	1,249,936	(609,693)
Operating expenses	5,768,070	11,351,787
Loss from operations	(4,518,134)	(11,961,480)
Other income (loss)	14,514	209,661
Deferred income tax benefit	121,238	688,630
Loss in equity investment, net of tax	(1,522,697)	(818,087)
Net loss	<u>\$ (5,905,079)</u>	<u>\$ (11,881,276)</u>
Per share data:		
Basic loss per share from operations	\$ (1.10)	\$ (2.22)
Basic loss per share	\$ (1.10)	\$ (2.22)
Weighted average shares outstanding – basic	5,368,419	5,361,767

**Consolidated Balance Sheet Data:**

	December 31,	
	2010	2009
Cash and cash equivalents	\$ 4,843,893	\$ 8,724,546
Goodwill and other intangibles	497,429	985,989
Total assets	9,887,776	15,899,679
Total liabilities	1,111,894	1,483,139
Stockholders' equity	8,775,882	14,416,540

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion together with our consolidated financial statements and the related notes and other financial information included elsewhere in this report. The discussion in this report contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this report should be read as applying to all related forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed here.*

### Business Overview and Recent Developments

HSW International, Inc. ("HSWI", "HSW International", or the "Company") is an online media company engaged in both publishing and web platform technology that develops and operates next-generation web publishing platforms combining traditional web publishing with social media. HSWI's internet businesses focus on providing consumers in the world's digital economies with locally relevant, high quality information. Our co-founding and continuing development of Sharecare, Inc. created a highly searchable social Q&A healthcare platform organizing and answering the questions of health, in partnership with Harpo Productions, Sony Pictures Television, Discovery, Jeff Arnold, and Dr. Mehmet Oz. Our international websites published under the HowStuffWorks brand provide readers in China and Brazil with thousands of articles about how the world around them works, serving as destinations for credible, easy-to-understand reference information. HSWI is the exclusive licensee in China and Brazil for the digital publication of translated content from Discovery Communications, Inc.'s HowStuffWorks.com, and in China for the digital publication of translated content from World Book, Inc., publisher of World Book Encyclopedia. We generate revenue primarily through service fees charged to clients for web platform development and operation services and the sale of online advertising on our websites. We were incorporated in Delaware in March 2006. Our headquarters are located at 3280 Peachtree Road, Suite 600, Atlanta, Georgia 30305.

In October 2009 the Company entered into and effectuated a series of transactions with Sharecare, Inc. Sharecare is a venture among Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of "The Dr. Oz Show"; HARPO Productions, producer of "The Oprah Winfrey Show"; Discovery Communications, the world's largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications' Chief of Global Digital Strategy; Sony Pictures Television; and HSWI. Sharecare was founded to develop and build a web platform that simplifies the search for health and wellness information by organizing all of the questions of health and providing multiple answers representing different points of view. As a result of these transactions, we received an equity stake in Sharecare (20% initially, and approximately 16.5% as of December 31, 2010 as a result of subsequent sales of equity by Sharecare to third parties), sold substantially all of the assets of our DailyStrength subsidiary to Sharecare, agreed to provide management and website development services to Sharecare, and received a limited license to use the Sharecare web platform for our own businesses. Additionally, we issued a promissory note to Sharecare for \$1.0 million, all of which was offset by services we provided to Sharecare, and the promissory note is now paid in full and cancelled. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength. We generated revenue of approximately \$5.9 million during 2010 as a result of performing services for Sharecare.

HSW International developed and launched Sharecare's website (<http://www.sharecare.com>) on October 7, 2010, and has entered into a Web Platform Services agreement with Discovery Communications for the development of the Curiosity Online website (<http://curiosity.discovery.com>).

The Company intends to develop a comprehensive personal finance vertical Web 3.0 site as a new business initiative. The Company will need additional capital to support this development and is exploring options for to finance this new business initiative.

We are continuing to evaluate our business strategy in Brazil. In February 2011, we implemented certain cost savings measures in our Brazil operations in connection with our search for a strategic media partner and consideration of other strategic alternatives. As such, cost containment measures have been implemented to manage our cash flows in conjunction with our search.

## Business Trends

A portion of our business consists of websites we recently established. We expect that our business should grow as these websites achieve greater awareness within their markets, resulting in increased usage against which we can sell advertising. While significant online advertising markets exist in Brazil, we believe it will take additional time for meaningful online advertisement rates to develop in China. More recently we began providing web platform services and we plan to develop a personal finance Web 3.0 site. We intend to continue prudent investments in building this business for serving future customers.

Our Brazilian website *ComoTudoFunciona*, which launched in March 2007, is our most mature business. Subject to seasonality, the number of page views for *ComoTudoFunciona* increased by 22.9% during 2010 compared to the same period in 2009. Additionally, the number of unique visitors to the website increased by 15.6% for the same periods.

Our Chinese website *BoWenWang* launched in June 2008. Unlike in Brazil, where we established our website with significant promotional commitments from one of the country's largest Internet portals, *BoWenWang* launched with a focus on organic traffic development. This contributed to initial usage trending below that in Brazil, though the overall traffic in China has now surpassed Brazil. We believe that by focusing on developing business relationships to further the exposure of the website, we should be able to continue to grow usage.

The number of page views for *BoWenWang* increased 311% during 2010 compared to the same period in 2009. Additionally, the number of unique visitors to the website increased 127.5% for the same period. We expect to see growth in the number of users and page views, which we believe should result in increased revenues for our Chinese website but we are cautious on the revenue outlook since the current economic environment in China and the rate of development of its Internet advertising market has been slower to develop than originally forecasted.

Both seasonal fluctuations in Internet usage and traditional retail seasonality have affected, and are likely to continue to affect, our business. Internet usage generally slows during the summer months, and expenditures by advertisers typically increase in the fourth quarter of each year. These seasonal trends have caused and will likely continue to cause, fluctuations in our quarterly results.

The overall online advertising market has declined in recent years, and the growth of online advertising in Brazil and China in future years may be lower than previously expected. We believe that the value of our international assets will be recognized over a longer-term horizon, as online advertising markets develop for Brazil and China and as the websites' traffic fundamentals improve. Due to the fact that our near-term performance may be impacted by the state of online advertising markets, we may experience changes in financial measures used to estimate fair values, which may further lead to non-cash impairment charges to our long-lived assets.

Given our investments and progress in building our infrastructure and developing our personnel over the past years, we began offering web platform services in 2009 and are expanding to other companies seeking cost effective solutions for developing and operating innovative websites. This new business should leverage our existing expertise in innovative web platform design and development, including our own websites in Brazil and China as well as the Web 3.0 platform we are developing, and our ability to support and service web platforms and applications.

We continue to invest in building what we believe are the necessary employee and systems infrastructures required to manage our operational growth and develop and promote our products and services. Additionally, we plan to maintain an awareness of the alignment of our administrative costs and revenues, and make operating adjustments as we believe necessary to best position HSW International for success.

## **Our Operations**

We continue to focus on building our portfolio of content rich websites that we build, develop and launch. Our core skill sets involve developing next-generation internet platforms that take advantage of best of breed development practices that enhance user engagement. We are using the license from Sharecare to expand our platform and offerings.

### ***ComoTudoFunciona – HowStuffWorks Brazil***

*ComoTudoFunciona* (<http://hsw.com.br>) is Brazil's online source for credible, unbiased and easy-to-understand explanations of how the world actually works. The Portuguese-language site is the exclusive digital publisher in Brazil of translated and localized content from the leading Discovery Communications brand HowStuffWorks, and is published from HSW's São Paulo offices. *ComoTudoFunciona* was established in March 2007, and as of December 31, 2010, had published over 6,700 articles that were either originally created content or translated and localized from HowStuffWorks. In February 2011, we implemented certain cost savings measures in our Brazil operations in connection with our search for a strategic media partner and consideration of other strategic alternatives. We recognized approximately \$176,000 and \$178,000 of revenue from Brazil during the twelve months ended December 31, 2010 and 2009, respectively.

### ***BoWenWang – HowStuffWorks China***

*BoWenWang* (<http://www.bowenwang.com.cn>) is an information and reference website that provides China with encyclopedic knowledge and easy-to-understand explanations of how the world works. The website is published from Beijing in the Chinese language. Launched in June 2008, *BoWenWang* features a combination of original content authored by the Company, translated and localized articles from the leading Discovery Communications brand HowStuffWorks, and content from World Book, Inc.

*BoWenWang* is the exclusive digital publisher in China of translated HowStuffWorks content. In September 2008, we entered into an exclusive content partnership with World Book, Inc. to dramatically increase the amount of content published on *BoWenWang*. In 2009, World Book created thousands of original Chinese-language articles providing information on many branches of knowledge, including arts, sciences, technology, mathematics, sports, and recreation, exclusively for our Chinese website. At December 31, 2010, we had published almost 14,700 articles in China.

In July 2010 we entered into a content distribution and branding relationship for our *BoWenWang* website with NetEase (NASDAQ: NTES), one of China's largest web portals with over 500 million page views per day. NetEase features our articles on a *BoWenWang* branded section of NetEase's portal. NetEase provides promotional links as part of the relationship, directing users to *BoWenWang* for additional related content.

Revenue generated from the operations based in China was approximately \$14,000 and 19,000 during the twelve months ended December 31, 2010 and 2009 respectively. Results of operations are included in the digital online publishing reporting segment.

### ***DailyStrength***

Now owned by Sharecare, *DailyStrength.org* offers content authored by medical professionals based on current topics, support groups, a treatment directory with definitions, private messaging, message boards and personal goal trackers, and primarily serves English-speaking territories such as the United States, Canada, Australia and the United Kingdom. The medical panel of professionals contributes articles and journals providing insight to a number of topics relevant to the *DailyStrength* user group and communities. Additionally, *DailyStrength* offers users and members the opportunity to launch communities for groups of like-minded individuals regarding topics of personal significance using leading community tools to interact.

On October 30, 2009, we sold substantially all of the assets of *DailyStrength* to Sharecare as part of the Sharecare Transactions. As a result, *DailyStrength* is no longer an operating segment of our Company. Instead, we provide services to Sharecare for the *DailyStrength* website under the Letter Agreement for Services described below. In addition, we own a minority investment in Sharecare, as further discussed below. Results of operations for *DailyStrength* through October 2009 are included in the social media reporting segment.



### *Investment in Sharecare – a related party*

On October 30, 2009, the Company entered into and effectuated a series of transactions with Sharecare, Inc. (the "Sharecare Transactions"), which was established as a venture among: Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of "The Dr. Oz Show"; HARPO Productions, producer of "The Oprah Winfrey Show"; Discovery Communications, the world's largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications' Chief of Global Digital Strategy; and HSWI. Sharecare was created to build a web-based platform that simplifies the search for health and wellness information by organizing a vast array of the questions of health and providing multiple answers from experts, organizations, publishers, and caregivers representing various points of view.

As a result of these transactions, the Company:

- Entered into a subscription agreement for the purchase of 125,000 shares of common stock of Sharecare, representing 20% ownership of Sharecare at the time of purchase;
- Sold substantially all of the assets of its DailyStrength subsidiary to Sharecare;
- Agreed to provide management and website development services to Sharecare; and
- Received a limited license to use the Sharecare web platform for HSWI's own businesses.

Additionally, the Company issued a promissory note for \$1 million to Sharecare, all of which was satisfied by services the Company provided to Sharecare during 2009. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength.

Jeff Arnold, formerly a member of HSWI's Board of Directors, is the Chairman and Chief Architect and a significant stockholder of Sharecare. Additionally, Discovery Communications, Inc., HSWI's largest stockholder, is a significant stockholder of Sharecare. HSWI's Board of Directors established a Special Committee consisting of three independent directors without any interests in Sharecare to evaluate and recommend the terms of these transactions to the Board. The Special Committee engaged a third party financial advisor to provide a fairness opinion on the totality of the transactions.

### *Web Platform Services*

In October 2009, the Company entered into a Letter Agreement for Services with Sharecare pursuant to which the Company agreed to perform services related to the design, development, hosting and related services necessary to launch and operate the Sharecare website through our direct activities and management of third party vendors. Sharecare agreed to pay us for the fully burdened cost of our personnel dedicated to the services and other costs incurred in providing the services plus a fixed monthly management fee for services performed since July 1, 2009. Although we performed services for Sharecare during the third quarter of 2009, we were not able to recognize the associated revenue until the effective date of the services agreement, October 30, 2009. Therefore, the revenue recognized during 2009 represents six months of revenue related to services rendered before and after the effective date of the services agreement. Pursuant to an amendment dated January 26, 2011, the agreement will now expire on December 31, 2011, and we do not expect the Company and Sharecare will extend the term or enter into a new services agreement. We intend to expand our Web Platform Services to additional clients in the coming year, while we actively develop content vertical websites owned by HSWI that we intend to launch as a new business line taking advantage of our platform know-how and expertise.

The majority of our revenue recognized in 2010 resulted from the services we performed for Sharecare.

In April 2010, the Company entered into a Services Agreement with Discovery Communications pursuant to which the Company agreed to perform services related to the design, development, hosting and related services necessary to launch and operate the Discovery Curiosity website through our direct activities and management of third party vendors. Discovery agreed to pay us for the fully burdened cost of our personnel dedicated to the services and other costs incurred in providing the services plus a fixed monthly management fee for services performed.

**Results of Operations – Year Ended December 31, 2010, Compared to Year Ended December 31, 2009**

The following table sets forth our results of operations for the years ended December 31, 2010, and 2009.

**HSW INTERNATIONAL, INC. and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(expressed in U.S. Dollars)**

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating revenue</b>		
Digital online publishing	\$ 190,712	\$ 196,942
Social media	—	194,458
Web platform services from affiliates	6,464,352	1,868,416
<b>Total revenue</b>	<b>6,655,064</b>	<b>2,259,816</b>
<b>Cost of services</b>	<b>5,405,128</b>	<b>2,869,509</b>
<b>Gross margin</b>	<b>1,249,936</b>	<b>(609,693)</b>
<b>Operating expenses</b>		
Selling, general and administrative (including stock-based compensation expense of \$265,990 and \$1,780,168 in 2010 and 2009, respectively)	4,983,981	10,136,353
Gain on sale of DailyStrength	—	(404,094)
Impairment loss	488,560	1,180,440
Depreciation and amortization	295,529	439,088
<b>Total operating expenses</b>	<b>5,768,070</b>	<b>11,351,787</b>
<b>Loss from operations</b>	<b>(4,518,134)</b>	<b>(11,961,480)</b>

<b>Non-operating income</b>		
Interest income	14,514	50,515
Other income	—	159,146
Total non-operating income	<u>14,514</u>	<u>209,661</u>
<b>Loss before income taxes and equity in loss of equity-method investment</b>	(4,503,620)	(11,751,819)
<b>Income tax expense (benefit)</b>	(121,238)	(688,630)
<b>Equity in loss of equity-method investment, net of taxes</b>	<u>(1,522,697)</u>	<u>(818,087)</u>
<b>Net loss</b>	<u>(5,905,079)</u>	<u>(11,881,276)</u>
Basic and diluted weighted average shares outstanding (a)	5,368,419	5,361,767
<b>Basic and diluted loss per share (a)</b>	<u>(1.10)</u>	<u>(2.22)</u>

(a) All outstanding share and per share amounts have been restated to reflect HSWT's February 2010 10-for-1 reverse stock split. See Note 11, "Stockholders' Equity".

### Revenues

Over the last two years, we generated the majority of our revenues from our web platform services segment, which were approximately \$6.5 million and \$1.9 million for the twelve month periods ended December 31, 2010 and 2009, respectively. The increase in revenue is primarily attributable to an increase in the volume of services performed for both new and existing customers, which are related parties. Additionally, these services were performed during all of 2010 compared to six months in 2009. Our digital online publishing segment is comprised of our international website businesses based in Brazil and China. In Brazil, where we launched our website in March 2007, we generated revenue for the years ended December 31, 2010 and 2009 of approximately \$176,000 and \$178,000, respectively. For the year ended December 31, 2010, approximately 39% of revenue from our Brazil website was generated from paid-for-impression advertising and 61% was generated from pay-per-performance ads. In China, we generated revenue for the years ended December 31, 2010 and 2009, of approximately \$14,000 and \$19,000, respectively. For the year ended December 31, 2010, approximately 60% of revenue from our China website was generated from paid-for-impression advertising, 3% was generated from pay-per-performance ads and 37% was generated from sponsorship advertising. Our social media segment is represented by the DailyStrength website and contributed approximately \$194,000 of revenue for the year ended December 31, 2009 before we sold it to Sharecare on October 30, 2009. Similar to 2010, we expect the web platform services segment to continue to be our primary source of revenue during 2011.

### Cost of Services

Cost of services includes the costs incurred to support our web platform services including labor, content and third party platform support services as well as ongoing third-party costs to acquire original content, translate and localize content from English to Portuguese and Chinese. These costs were \$5.4 million and \$2.9 million for the years ended December 31, 2010 and 2009, respectively. The increase in cost is due to the infrastructure needed to support the growth of the web platform services business.

### Operations – Selling, General and Administrative Expenses

Our total selling, general and administrative expenses ("SG&A") decreased by \$5.2 million for the year ended December 31, 2010, as compared to 2009. In conjunction with our new web platform services business, we redirected existing resources that provided technology support in the first half of 2009 to this segment to provide services to our web platform customers. As these costs support the web platform services revenue, they have been recorded as cost of services for the year ended December 31, 2010, thereby creating a decrease in our selling, general and administrative expense compared to the year December 31, 2009. Additionally we experienced a \$1.5 million decrease in stock-based compensation expense for the year ended December 31, 2010, as compared to

2009. Stock-based compensation expense is a non-cash item, and in 2010 totaled \$266,000. The decrease in stock-based compensation expense year-over-year reflects vesting during 2010 of options at exercise prices at the lower end of options ranging from \$3.85 per share to \$42.60 per share, reflecting our higher stock price in earlier periods when the options were granted. The decrease in the above mentioned items was partially offset by an increase of \$240,000 in fees related to the Sharecare transaction in 2009.

We are continuing to evaluate our business strategy in Brazil. In February 2011, we implemented certain cost-saving measures in our Brazil operations in connection with our search for a strategic media partner and consideration of other strategic alternatives.

#### **Gain on Sale of DailyStrength**

On October 30, 2009, the Company entered into a series of transactions to form Sharecare, a venture established to build a web-based platform that simplifies the search for health and wellness information by organizing a vast array of the questions of health and providing multiple answers from experts, organizations, publishers, and caregivers representing various points of view. The DailyStrength website offers content authored by medical professionals based on current topics, support groups, a treatment directory with definitions, private messaging, message boards and personal goal trackers.

On October 30, 2009, we sold substantially all of the assets of DailyStrength to Sharecare under the Sharecare Transactions. GAAP guidance under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810 defines this transaction as a deconsolidation and requires a mathematical computation of a gain or loss related to the deconsolidation based on the difference between the carrying value of the assets and the fair value of consideration received. Accordingly, we recognized a gain of approximately \$400,000 on the sale of the DailyStrength assets to Sharecare.

#### **Impairment Loss**

As a result of our annual impairment test in the fourth quarter, we recorded an indefinite-lived intangible asset impairment charge of \$489,000 during the year ended December 31, 2010, related to our licenses to operate in China. The most significant change to the prior year valuation was due to changes in key assumptions used to determine the valuation of the China licenses based on recent indications of an easing of restrictions for entry into China's business environment, specifically assumptions regarding the time and cost required to obtain similar licenses by a hypothetical new market participant. We continue to expect to receive operational benefits from the licenses to operate in China as these licenses are essential to our ongoing business in China. Accordingly, we continue to carry an intangible asset of approximately \$481,000 after the impairment charges. We have experienced positive trends regarding traffic patterns to our China website and expect that further growth in visitors and recurring visits will provide a basis for our website to generate more revenue than experienced in the prior year. If we do not realize our expectations for revenues, we may have to recognize additional impairment charges.

#### **Depreciation and Amortization**

Depreciation and amortization expense decreased by approximately \$144,000 due mainly to the sale of the Daily Strength assets to Sharecare in 2009.

#### **Interest Income**

Interest income decreased by approximately \$36,000 due to decreased cash balances combined with decreases in interest rates available.

#### **Other Income**

Other income decreased approximately \$159,000 for the year ended December 31, 2010, as compared to 2009. The decrease in other income reflects an early termination fee paid by an advertising customer during 2009.

### **Deferred Income Tax Benefit**

We recorded a \$121,000 tax benefit related to the impairment charge against the licenses to operate in China intangible asset.

### **Loss in Equity Investment**

We account for our investment in Sharecare under the equity method of accounting. For the years ended December 31, 2010 and 2009, we recognized a loss in the equity investment of approximately \$1.5 million and approximately \$818,000, respectively, net of taxes. The Sharecare results were as expected for a new entity which launched a new website in late 2010.

### **Liquidity and Capital Resources**

Our cash balance was approximately \$4.8 million as of December 31, 2010. We believe that this balance and cash generated from our current operations will be sufficient to meet our requirements for the next twelve months. The market for online advertising in Brazil and China is developing at a slower rate than previously expected, in part due to the global financial downturn of recent years. In consideration of market conditions and near-term revenue expectations, we implemented cost reductions in both 2010 and early 2011 to reduce overhead and better align our costs with our strategic initiatives. We continually monitor our cash position to make adjustments as we believe necessary to maintain our objectives of funding ongoing operations and continuing to make technological investments in our web platform business and our websites and their respective brands.

We expect to continue to invest in expanding and gaining market share for our web platform services and our international internet sites, including additional investments to create or acquire content. We are carefully evaluating our strategy for our Brazil web business and have implemented cost-saving measures while we explore strategic alternatives. We expect that our service agreements to provide web platform services to customers will continue to generate revenues for our company and we continue to pursue activities that identify and engage new customers for the business. Our largest customer (approximately 90% of 2010 revenues), Sharecare, is a recently-formed entity and our service agreement with Sharecare expires in December 2011. Given that we do not expect the Company and Sharecare will extend the term or into a new services agreement, there can be no assurance that the revenues generated from service agreements in the future will be sufficient to cover our liquidity needs for the long-term. Further, Sharecare may be required to raise additional capital in 2011 in order to fund its operations, including its obligations to us under the services agreement. We currently do not have any material commitments for capital expenditures. Our anticipated investments will be made in the respective markets based on our success and anticipated market conditions and trends. We expect that most of these investments will be paid or under commitment before we begin to realize significant revenues. Additionally, in the normal course of business, we continue to explore various business initiatives that may lead to additional sources of growth, such as our recent content distribution and promotional agreement with Chinese web portal NetEase.

On March 4, 2011, the Company entered into a senior revolving credit agreement with Theorem Capital, LLC (the "Lender") pursuant to which the Lender has agreed to extend HSWI a line of credit of up to \$1.0 million for a period of one year from March 4, 2011, subject to renewal by the Lender, at its sole discretion, for an additional one-year period. Under the terms of the credit agreement, HSWI may, in its sole discretion, borrow from the Lender up to \$1.0 million from time to time during the term of the credit agreement, in minimum loan amounts of \$200,000. HSWI entered into this senior revolving credit agreement to provide flexibility as HSWI builds and executes upon its social media content strategy.

Any borrowings under the credit agreement will be senior unsecured indebtedness of HSWI and may be used for HSWI's working capital and general corporate purposes. Any borrowings will be due and payable, with accrued interest thereon, on March 4, 2012, subject to any renewal of the line of credit, at the Lender's discretion. During the term of the credit agreement, any principal amounts repaid by HSWI may be re-borrowed.

Borrowings under the credit agreement will bear interest at a fixed rate equal to 8% per annum, payable on or before March 4, 2012, unless the line of credit is renewed and the payment date extended, in which case interest shall be payable on or before March 4, 2013.

The Lender received a warrant to purchase 65,359 shares of HSWI common stock with an exercise price of \$ 3.06 per share in connection with entering into the credit agreement.

Cash and cash equivalents was \$4.8 million at December 31, 2010, compared to \$8.7 million at December 31, 2009. The decrease in cash is primarily attributable to the use of cash to fund operations. We believe that our current cash balance and the combination of our expected cash generated from future operations combined with cost reduction measures will provide sufficient cash to fund operations for at least twelve months. However, if cash on hand and generated from operations is insufficient to satisfy our working capital and capital expenditure requirements, we may draw down on our line of credit, implement further cost reduction strategies, or attempt to sell additional equity or obtain financing to fund further development and attain profitability. There is no assurance that our current financing will be sufficient to fund our capital needs or that additional financing will be available or that we will be able to complete financing on satisfactory terms, if at all.

#### **Cash flows from operations used in operating activities**

Our net cash used in operating activities during 2010 decreased by \$5.5 million compared to the prior year. The decrease in cash used was due to cost cutting measures we implemented in 2010 as well as growth in revenue from our web platform services business.

#### **Cash used in investing activities**

During the year ended December 31, 2010, net cash used in investing activities was \$215,000 compared to \$129,000 in 2009. The increase was primarily due to capital expenditures for tenant improvements.

#### **Cash flows from financing activities**

For the years ended December 31, 2010 and December 31, 2009, there was no net cash provided or used by financing activities.

#### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. We believe that our critical accounting policies, revenue recognition, stock-based compensation and long-lived assets including goodwill, equity investments, and other intangible assets may involve a higher degree of judgment and complexity.

#### **Revenue Recognition**

We recognize revenue when the service has been provided, and the other criteria set forth in Staff Accounting Bulletin ("SAB") 104, *Revenue Recognition* have been met; namely, the fees we charge are fixed or determinable, we and our advertisers understand the specific nature and terms of the agreed-upon transactions, and the collectability is reasonably assured.

We recognize online publishing revenue as visitors are exposed to or react to advertisements on our website. We generate revenue from advertising in the form of sponsored links and image ads. This includes both pay-per-performance ads and paid-for-impression advertising. In the pay-per-performance model, we earn revenue based on the number of clicks associated with such ad; in the paid-for-impression model (sponsorships), revenue is derived from the display of ads.

We recognize web platform services revenue at the time services are performed. All of our services revenue is related to the design, development, hosting and other services required to launch and operate the Sharecare, DailyStrength and Ask Dr. Oz websites through our direct activities and management of third-party vendors. This revenue is classified within our web platform services segment.

We also recognize web platform services revenue on certain projects using a percentage of completion method. Sales are calculated based on the percentage that total costs incurred bear to total estimated costs at completion.

#### **Stock-Based Compensation**

Under the 2006 Equity Incentive Plan adopted April 13, 2006, and the 2010 Equity Plan adopted June 15, 2010 (the "Plans"), HSWI authorized a total of 1,075,000 shares for grant as part of a long term incentive plan to attract, retain and motivate its eligible executives, employees, officers, directors and consultants. Options to purchase common stock under the Plans have been granted to our officers and employees with an exercise price equal to the fair market value of the underlying shares on the date of grant. Additionally in 2008, we granted restricted shares to certain members of our Board of Directors and executives at the fair market value on the grant date. As of December 31, 2010, no options had been exercised under the Plan.

We account for stock-based compensation in accordance with Codification ASC 718, which requires us to recognize expense related to the fair value of our stock-based compensation awards.

ASC 718 requires the use of a valuation model to calculate the fair value of the stock based awards. We have elected to use the Black-Scholes options pricing model to determine the fair value of stock options on the dates of grant, consistent with that used for pro forma disclosures under ASC 718. We measure stock-based compensation based on the fair values of all stock-based awards on the dates of grant, and recognize stock-based compensation expense using the straight-line method over the vesting periods. Stock-based compensation expense was \$266,000 and \$1.8 million for the years ended December 31, 2010 and 2009, respectively.

#### **Impairment of Property and Equipment**

Property and equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Such events include significant adverse changes in the business climate, the impact of significant customer losses, unanticipated current period operating or cash flow losses, forecasted continuing losses or a current expectation that an asset group will be disposed of before the end of its useful life. Recoverability of property and equipment is measured by a comparison of the carrying amounts to future net cash flows the assets are expected to generate. For purposes of recognition and measurement of an impairment loss, property and equipment are grouped with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. As of September 30, 2009, and in anticipation of the planned disposition of the DailyStrength assets, we performed an impairment analysis on our property and equipment in our social media reportable segment. The results indicated no impairment charge was required. Other than the sale of our DailyStrength assets in 2009, no other triggering events occurred during 2010 that would have caused the Company to believe that the fair value of its property and equipment had declined below its carrying value.

#### **Impairment of Investments**

Investments are reviewed to determine if events have occurred which would indicate that a decrease in value has occurred which is other than temporary. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. We monitor our assets for potential impairment on an ongoing basis. No impairment charge has been recognized on our investment balances as of December 31, 2010 or 2009.

#### **Impairment of Definite-Lived Intangible Assets**

Amortizable intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. We monitor our assets for potential impairment on an ongoing basis. As of September 30, 2009, and in anticipation of the planned disposition of the DailyStrength assets, we performed an impairment analysis on the majority of our definite-lived intangible assets. The results indicated no impairment charge was required. In October 2009, we sold the majority of our definite-lived intangible assets to Sharecare. No impairment test was necessary at December 31, 2010.

## Goodwill Impairment

Generally, we perform our annual assessment for impairment for goodwill and indefinite-lived intangible assets during the fourth quarter of the fiscal year, unless facts and circumstances require differently. We determine recoverability by comparing the estimated fair value of the reporting unit to which the goodwill applies to the carrying value, including goodwill, of that reporting unit using a discounted cash flow model. Estimating the fair value of the reporting unit involves uncertainties, because it requires management to develop numerous assumptions, including assumptions about the future growth and potential volatility in revenues and costs, capital expenditures, industry economic factors and future business strategy. The variability of the factors that management uses to perform the goodwill impairment test depends on a number of conditions, including uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors. Significant judgments in this area involve determining whether a triggering event has occurred, determining the future cash flows for the assets involved and determining the proper discount rate to be applied in determining fair value.

As of September 30, 2009, and in anticipation of the planned disposition of the DailyStrength assets, we performed an impairment analysis of our goodwill. The results indicated no impairment charge was required. We subsequently sold the DailyStrength assets to Sharecare and as of December 31, 2010, no goodwill remained and therefore no impairment test was necessary.

## Indefinite-Lived Intangible Asset Impairment

As a result our annual impairment test in the fourth quarter, we recorded indefinite-lived intangible asset impairment charges of \$488,560 during the year ended December 31, 2010, related to the licenses to operate in China. The calculation of the fair value of the Company's licenses to operate in China was performed consistently with the annual test performed at December 31, 2009, with updated assumptions where appropriate. The most significant change to the prior year valuation was due to changes in key assumptions used to determine the valuation of the China licenses based on recent indications of an easing of entry into China's business environment, specifically assumptions regarding the time and cost required to obtain similar licenses by a hypothetical new market participant. The Company tests its indefinite-lived intangible assets, which are licenses to operate in China, for impairment by utilizing discounted cash flow models to estimate their fair values. These cash flow models involve several assumptions. Changes in the Company's assumptions could materially impact its fair value estimates. Assumptions critical to its fair value estimates are: (i) weighted-average cost of capital rates used to derive the present value factors used in determining the fair value; (ii) projected annual revenue growth rates used in the models; and (iii) projected long-term growth rates used in the derivation of terminal year values. The valuation of our China license requires us to estimate the period of time a hypothetical market participant, which we define as an internet company wishing to establish a presence in China, would need to obtain our Chinese business licenses. Other assumptions include estimates of projected capital expenditures, upfront costs incurred to obtain similar licenses, and working capital requirements. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period-specific facts and circumstances.

The following table presents the range of assumptions the Company used to derive its fair value estimates during the impairment test conducted in the fourth quarter of 2010.

	<u>Assumptions</u>
Weighted-average cost of capital	28%
Long-term growth rates	7%
Annual revenue growth rates	17.0-1565.0%
Time required to obtain similar licenses	4.5 months

If the Company makes additional downward revisions to its cash flow projections in the future, the Company may experience material impairment charges to the remaining carrying amount of its licenses to operate in China.



### Recent Accounting Pronouncements

We are subject to recent accounting pronouncements, as described in detail in Note 3 to our consolidated financial statements included in Item 8 herein.

### Off-Balance Sheet Arrangements

None.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We translate the foreign currency financial statements of our international operations into U.S. dollars at current exchange rates, except revenue and expenses, which we translate at average exchange rates during each reporting period. We accumulate net exchange gains or losses resulting from the translation of assets and liabilities in a separate section of stockholders' equity titled "accumulated other comprehensive income (loss)". Generally, our foreign expenses are denominated in the same currency as the associated foreign revenue, and at this stage of our development the exposure to rate changes is minimal.

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and accounts receivables. At December 31, 2010, 99% of our cash was denominated in U.S. dollars. The remaining 1% was denominated in Brazilian *Reais*, Chinese *Renminbi* or Hong Kong Dollars. All our cash is placed with financial institutions we believe are of high credit quality. Our cash is maintained in bank deposit accounts, which, at times, exceed federally insured limits. We have not experienced any losses in such accounts and do not believe our cash is exposed to any significant credit risk.

We do not use financial instruments to hedge our foreign exchange exposure because the effects of the foreign exchange rate fluctuations are not currently significant. We do not use financial instruments for trading purposes. We do not use any derivative financial instruments to mitigate any of our currency risks. The net assets of our foreign operations at December 31, 2010, were approximately \$889,000.

In March 2011, the Company entered into a Revolving Credit Agreement for \$1.0 million over a 12-month term. Amounts borrowed under the line of credit bear an annual interest rate of 8%. We expect to draw on this line of credit should our other liquidity strategies fail to fulfill our cash needs for the short-term. The line of credit requires that we maintain minimum assets and can be renewed annually at Theorem Capital's discretion. There are no outstanding balances under the line of credit as of March 28, 2011.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

CONSOLIDATED FINANCIAL STATEMENTS

<a href="#">Report of Independent Registered Public Accounting Firm</a>	40
<a href="#">Consolidated Balance Sheets</a>	41
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For supplemental quarterly financial information, see Note 15, Quarterly Results of Operations (unaudited), of the Notes to Consolidated Financial Statements.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of HSW International, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of HSW International, Inc. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 2 and 11 to the consolidated financial statements, the Company has entered into significant transactions with Sharecare, Inc., a related party.

*/s/ PricewaterhouseCoopers LLP*  
Atlanta, Georgia

March 29, 2011

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(expressed in U.S. Dollars)

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,843,893	\$ 8,724,546
Trade accounts receivable (net of allowance for doubtful accounts of \$0 and \$0 at December 31, 2010 and 2009, respectively)	42,741	36,377
Trade accounts receivable due from affiliates	658,944	469,185
Prepaid expenses and other current assets	566,174	787,972
<b>Total current assets</b>	<b>6,111,752</b>	<b>10,018,080</b>
<b>Property and equipment, net</b>	<b>306,460</b>	<b>490,306</b>
Investment in unconsolidated affiliate	2,972,135	4,405,304
Licenses to operate in China	481,000	969,560
Intangibles, net	16,429	16,429
<b>Total assets</b>	<b>\$ 9,887,776</b>	<b>\$ 15,899,679</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 382,515	\$ 410,966
Accrued expenses and other current liabilities	489,315	686,549
Advances from shareholder	85,745	85,296
Other current liabilities	34,069	57,938
<b>Total current liabilities</b>	<b>991,644</b>	<b>1,240,749</b>
<b>Long-term liabilities</b>		
Deferred tax liability	120,250	242,390
<b>Commitments and contingencies</b>		
	—	—
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.001 par value, 20,000,000 shares authorized, 5,375,455 and 5,369,829 issued and outstanding at December 31, 2010, and December 31, 2009, respectively (a)	5,375	5,369
Additional paid-in-capital	100,701,356	100,435,372
Accumulated other comprehensive income	38,531	40,100
Accumulated deficit	(91,969,380)	(86,064,301)
<b>Total stockholders' equity</b>	<b>8,775,882</b>	<b>14,416,540</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,887,776</b>	<b>\$ 15,899,679</b>

(a) All outstanding share amounts have been restated to reflect HSWI's February 2010 10-for-1 reverse stock split. See Note 9, "Stockholders' Equity".

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

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(expressed in U.S. Dollars)

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating revenue</b>		
Digital online publishing	\$ 190,712	\$ 196,942
Social media	—	194,458
Web platform services from affiliates	6,464,352	1,868,416
<b>Total revenue</b>	<b>6,655,064</b>	<b>2,259,816</b>
<b>Cost of services</b>	<b>5,405,128</b>	<b>2,869,509</b>
<b>Gross margin</b>	<b>1,249,936</b>	<b>(609,693)</b>
<b>Operating expenses</b>		
Selling, general and administrative (including stock-based compensation expense of \$265,990 and \$1,780,168 in 2010 and 2009, respectively)	4,983,981	10,136,353
Gain on sale of DailyStrength	—	(404,094)
Impairment loss	488,560	1,180,440
Depreciation and amortization	295,529	439,088
<b>Total operating expenses</b>	<b>5,768,070</b>	<b>11,351,787</b>
<b>Loss from operations</b>	<b>(4,518,134)</b>	<b>(11,961,480)</b>
<b>Non-operating income</b>		
Interest income	14,514	50,515
Other income	—	159,146
<b>Total non-operating income</b>	<b>14,514</b>	<b>209,661</b>
<b>Loss before income taxes and equity in loss of equity-method investment</b>	<b>(4,503,620)</b>	<b>(11,751,819)</b>
Income tax benefit	121,238	688,630
Equity in loss of equity-method investment, net of taxes	(1,522,697)	(818,087)
<b>Net loss</b>	<b>\$ (5,905,079)</b>	<b>\$ (11,881,276)</b>
<b>Basic and diluted loss per share (a)</b>	<b>\$ (1.10)</b>	<b>\$ (2.22)</b>
<b>Basic and diluted weighted average shares outstanding (a)</b>	<b>5,368,419</b>	<b>5,361,767</b>

(a) All outstanding share and per share amounts have been restated to reflect HSWI's February 2010 10-for-1 reverse stock split. See Note 9, "Stockholders' Equity".

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

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS**  
(expressed in U.S. Dollars)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
<b>Balance at December 31, 2008</b>	<u>5,363,878</u>	<u>\$ 5,363</u>	<u>\$ 98,655,210</u>	<u>\$ (1,126)</u>	<u>\$ (74,183,025)</u>	<u>\$ 24,476,422</u>
Comprehensive loss:						
Net loss	—	—	—	—	(11,881,276)	(11,881,276)
Foreign currency translation	—	—	—	41,226	—	41,226
Total comprehensive loss						(11,840,050)
Restricted stock grants	8,000	8	(8)	—	—	—
Forfeited restricted stock	(2,049)	(2)	2	—	—	—
Stock-based compensation expense	—	—	1,780,168	—	—	1,780,168
<b>Balance at December 31, 2009</b>	<u>5,369,829</u>	<u>\$ 5,369</u>	<u>\$ 100,435,372</u>	<u>\$ 40,100</u>	<u>\$ (86,064,301)</u>	<u>\$ 14,416,540</u>
Comprehensive loss:						
Net loss	—	—	—	—	(5,905,079)	(5,905,079)
Foreign currency translation	—	—	—	(1,569)	—	(1,569)
Total comprehensive loss						(5,906,648)
Restricted stock grants	8,000	8	(8)	—	—	—
Forfeited restricted stock	(2,374)	(2)	2	—	—	—
Stock-based compensation expense	—	—	265,990	—	—	265,990
<b>Balance at December 31, 2010</b>	<u>5,375,455</u>	<u>\$ 5,375</u>	<u>\$ 100,701,356</u>	<u>38,531</u>	<u>\$ (91,969,380)</u>	<u>\$ 8,775,882</u>

All outstanding share and per share amounts have been restated to reflect HSWI's February 2010 10-for-1 Reverse Split. See Note 9. "Stockholder's Equity".  
The accompanying notes are an integral part of these consolidated financial statements.

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(expressed in U.S. Dollars)

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (5,905,079)	\$ (11,881,276)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	295,529	439,088
Impairment loss	488,560	1,180,440
Gain on sale of DailyStrength	—	(404,094)
Web platform services rendered in exchange for reduction in promissory note	—	(1,000,000)
Services rendered in exchange for equity investment in Sharecare	—	(250,000)
Stock-based compensation	265,965	1,780,168
Deferred income taxes	(122,140)	(688,630)
Equity in loss of equity-method investment	1,522,697	818,087
Loss on sale of fixed assets	14,095	1,117
Changes in operating assets and liabilities:		
Accounts receivable	(6,364)	113,643
Accounts receivable from affiliate	(189,759)	(469,185)
Prepaid expenses and other current assets	221,798	872,128
Accounts payable, accrued expenses, and other liabilities	(249,086)	280,930
<b>Net cash used in operating activities</b>	<b>(3,663,784)</b>	<b>(9,207,584)</b>
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets and software, net	(125,772)	(114,213)
Other, net	(89,528)	(15,042)
<b>Net cash used in investing activities</b>	<b>(215,300)</b>	<b>(129,255)</b>
<b>Net change in cash and cash equivalents</b>	<b>(3,879,084)</b>	<b>(9,336,839)</b>
Impact of currency translation on cash	(1,569)	41,226
Cash and cash equivalents at beginning of period	8,724,546	18,020,159
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,843,893</b>	<b>\$ 8,724,546</b>

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

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(continued)  
(expresses in U.S. Dollars)

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Supplemental disclosure of cash flow information</b>		
<b>Other non-cash financing and investing activities</b>		
Equity investment in Sharecare in return for issuance of promissory note	—	1,000,000
Equity investment in Sharecare in exchange for services rendered	—	250,000
Equity investment in Sharecare, contract for services agreement, license to use Sharecare web platform for HSWI's own business, assumption of DailyStrength earnout by Sharecare in exchange for DailyStrength assets (see Note 2)	—	3,569,298
	—	3,569,298

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



**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(expressed in U.S. Dollars)**

**1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS**

**Description of the Business**

HSW International, Inc. ("HSWI" or the "Company") is an online media company engaged in both publishing and web platform technology that develops and operates next-generation web publishing platforms combining traditional web publishing with social media. HSWI's internet businesses focus on providing consumers in the world's digital economies with locally relevant, high quality information. Our co-founding and continuing development of Sharecare, Inc. ("Sharecare") created a highly searchable social Q&A healthcare platform organizing and answering the questions of health, in partnership with Harpo Productions, Sony Pictures Television, Discovery, Jeff Arnold, and Dr. Mehmet Oz. Our international websites published under the HowStuffWorks brand provide readers in China and Brazil with thousands of articles about how the world around them works, serving as destinations for credible, easy-to-understand reference information. HSWI is the exclusive licensee in China and Brazil for the digital publication of translated content from Discovery Communications, Inc.'s ("Discovery") HowStuffWorks.com, and in China for the digital publication of translated content from World Book, Inc. ("World Book"), publisher of World Book Encyclopedia. We generate revenue primarily through service fees charged to clients for web platform development and operation services and the sale of online advertising on our websites. We were incorporated in Delaware in March 2006. Our headquarters are located at 3280 Peachtree Road, Suite 600, Atlanta, Georgia 30305. We currently maintain offices in Atlanta, Georgia, China, and Brazil.

We entered the Brazilian online publishing market in March 2007, by utilizing royalty-free and exclusively licensed digital content provided by HowStuffWorks. At December 31, 2010, we had approximately 6,700 articles that were either (i) articles from the HowStuffWorks content database translated from English to Portuguese, or (ii) originally created content. The web site address is (<http://hsw.com.br/>). We are continuing to evaluate our business strategy in Brazil. We are searching for a strategic media partner which to build brand recognition and provide greater exposure to our Portuguese content. In February 2011, we implemented certain cost-saving measures in our Brazil operations in connection with our search for a strategic media partner and consideration of other strategic alternatives. As such, cost containment measures have been implemented to manage our cash flows in conjunction with our search.

In June 2008, we entered China's online publishing market utilizing a combination of the contributed assets from HowStuffWorks with the benefit of INTAC's relationships and knowledge of the Chinese markets in obtaining our Internet licenses. In September 2008, we announced an exclusive content partnership with World Book. In 2009, World Book created thousands of original Chinese-language articles providing information on all branches of knowledge, including arts, sciences, history, technology, mathematics, sports, and recreation, exclusively for HSW International's Beijing-based website, BoWenWang (<http://www.bowenwang.com.cn/>). At December 31, 2010, we had published approximately 14,700 articles.

In November 2008, we acquired DailyStrength, Inc. ("DailyStrength"), publisher of the health social networking website DailyStrength (<http://www.DailyStrength.org>). DailyStrength was founded in 2006 by internet veterans with more than 20 years of experience conceiving, building, and running communities on the web, including Yahoo Mail, Yahoo Message Boards, Yahoo Groups, GeoCities, Facebook and more. DailyStrength hosts more than 500 communities focused on issues such as weight loss, divorce, parenting and illnesses. Users of the site both read and interact with high-quality, accurate reference information. The site features health journals, discussion forums, virtual hugs, member-created groups, and treatment reviews plus unique content provided on a daily basis by physicians and other health professionals.

On October 30, 2009, the Company entered into and effectuated a series of transactions with Sharecare, Inc. ("Sharecare"). Sharecare is a venture among Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of "The Dr. Oz Show"; HARPO Productions, producer of "The Oprah Winfrey Show"; Discovery Communications, the world's largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications' Chief of Global Digital Strategy; Sony Pictures Television; and HSWI. Sharecare was founded to build a website that simplifies the search for health and wellness information by organizing all of the questions of health and providing multiple answers representing different points of view. As a result of these transactions, the Company received an equity stake in Sharecare, sold substantially all of the assets of its DailyStrength subsidiary to Sharecare, agreed to provide management and website development services to Sharecare, and received a limited license to use the Sharecare

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
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web platform for its own businesses. Additionally, the Company issued a promissory note for \$1 million to Sharecare, all of which was offset by services the Company provided to Sharecare during 2009, and the note is now paid in full. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength. We earned the majority of our revenue from the services agreement with Sharecare during 2009 and 2010.

**Liquidity Considerations**

Our cash balance was approximately \$4.8 million as of December 31, 2010. We believe that this balance and cash generated from our current operations will be sufficient to meet our requirements for the next twelve months. The market for online advertising in Brazil and China is developing at a slower rate than expected, in part due to the global financial downturn of recent years. In consideration of market conditions and near-term revenue expectations, we implemented cost reductions in February 2011 to reduce overhead and better align our costs with our strategic initiatives. We consistently monitor our cash position to make adjustments as we believe necessary to maintain our objectives of funding ongoing operations and continuing to make technological investments in our web platform business and our websites and their respective brands.

We expect to continue to invest in expanding and gaining market share for our web platform services and our international internet sites, including additional investments to create or acquire content. We expect that our service agreements to provide web platform services to customers will continue to generate revenues for our company; and we continue to pursue activities that identify and engage new customers for the business. Our largest customer (approximately 90% of 2010 revenues), Sharecare, is a recently-formed entity and our current web platform services agreement with Sharecare expires in December 2011. Given that we do not expect the Company and Sharecare will extend the term or enter into a new services agreement, there can be no assurance that the revenues generated from service agreements in the future will be sufficient to cover our liquidity needs for the long-term. Further, Sharecare may be required to raise additional capital in 2011 in order to fund its operations, including their obligations to us under the services agreement. We currently do not have any material commitments for capital expenditures. Our anticipated investments will be made in the respective markets based on our success and anticipated market conditions and trends. We expect that most of these investments will be paid or under commitment before we begin to realize significant revenues. Additionally, in the normal course of business, we continue to explore various business initiatives that may lead to additional sources of revenue and growth, such as our recent content distribution and promotional agreement with Chinese web portal NetEase.

On March 4, 2011, the Company entered into a senior revolving credit agreement with Theorem Capital, LLC (the "Lender") pursuant to which the Lender has agreed to extend HSWI a line of credit of up to \$1.0 million for a period of one year from March 4, 2011, subject to renewal by the Lender, at its sole discretion, for an additional one-year period. Under the terms of the credit agreement, HSWI may, in its sole discretion, borrow from the Lender up to \$1.0 million from time to time during the term of the credit agreement, in minimum loan amounts of \$200,000. HSWI entered into this senior revolving credit agreement to provide flexibility as HSWI builds and executes upon its social media content strategy.

Any borrowings under the credit agreement will be senior unsecured indebtedness of HSWI and may be used for HSWI's working capital and general corporate purposes. Any borrowings will be due and payable, with accrued interest thereon, on March 4, 2012, subject to any renewal of the line of credit, at the Lender's discretion. During the term of the credit agreement, any principal amounts repaid by HSWI may be re-borrowed.

Borrowings under the credit agreement will bear interest at a fixed rate equal to 8% per annum, payable on or before March 4, 2012, unless the line of credit is renewed and the payment date extended, in which case interest shall be payable on or before March 4, 2013.

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
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**(expressed in U.S. Dollars)**

**2. TRANSACTIONS WITH SHARECARE**

On October 30, 2009, the Company entered into and effectuated a series of transactions with Sharecare, Inc. (the "Sharecare Transactions"), which was established as a venture among: Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of "The Dr. Oz Show"; HARPO Productions, producer of "The Oprah Winfrey Show"; Discovery Communications, the world's largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications' Chief of Global Digital Strategy; and HSWI. Sharecare was created to build a web-based platform that simplifies the search for health and wellness information by organizing a vast array of the questions of health and providing multiple answers from experts, organizations, publishers, and caregivers representing various points of view.

As a result of these transactions, the Company:

- Entered into a subscription agreement for the purchase of 125,000 shares of common stock of Sharecare, representing 20% ownership of Sharecare at the time of purchase;
- Sold substantially all of the assets of its DailyStrength subsidiary to Sharecare;
- Agreed to provide management and website development services to Sharecare; and
- Received a limited license to use the Sharecare web platform for HSWI's own businesses.

Additionally, the Company issued a promissory note for \$1 million to Sharecare, all of which was satisfied by services the Company provided to Sharecare during 2009. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength.

Upon the sale of DailyStrength to Sharecare, the Company recorded a gain of \$404,094, representing the difference in the fair value of consideration received and the carrying amounts of DailyStrength.

The following table details the DailyStrength assets sold to Sharecare on October 30, 2009:

Property and equipment, net	\$ 34,616
Intangibles, net	1,536,096
Goodwill	1,998,586
Total assets held for sale	<u>\$ 3,569,298</u>

We account for our equity interest in Sharecare under the equity method of accounting based on our ability to exercise significant influence through our vendor relationship with Sharecare as well as our ownership percentage and representation on its board of directors. Under this method, we record our proportionate share of Sharecare's net income or loss based on the financial results of Sharecare. As of December 31, 2010, HSWI owned approximately 16.5% of the outstanding common stock of Sharecare.

The difference between the carrying amount of our investment balance in Sharecare and our proportionate share of Sharecare's underlying net assets was approximately \$2.6 million. The difference is characterized as goodwill and is subject to subsequent measurement in accordance with ASC 323 for an other than temporary decline in value. We eliminated our portion of intercompany profit included in Sharecare's historical earnings through December 31, 2010, which was approximately \$243,000. Our investment balance in Sharecare reflects the intercompany profit elimination.

For the year ended December 31, 2010, the Company recorded a non-cash adjustment to equity in loss of equity-method investment of approximately \$100,000 to correct our investment in unconsolidated affiliate balance. The Company determined this out-of-period adjustment is not material to the consolidated financial statements for the year ended December 31, 2010 or prior period financial statements.

As a result of the issuance of common stock by Sharecare to third party investors in 2010, we recorded a change in interest gain of approximately \$632,000, which is included in "Equity in loss of equity-method investment, net of tax" on the consolidated statement of operations.

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The following table shows select financial data of Sharecare, as well as HSWI's proportional share of net loss in Sharecare as reported under the equity method:

	<b>For the Year Ended December 31, 2010</b>	<b>For the Year Ended December 31, 2009</b>
Revenues	\$ 4,742,403	63,729
Gross Profit	4,000,091	(165,549)
Loss from Operations	<u>(11,863,151)</u>	<u>(4,336,494)</u>
Net Loss	<u>(12,008,017)</u>	<u>(4,329,761)</u>
Loss in Equity Investment, net of tax	<u>\$ (1,980,122)</u>	<u>(818,324)</u>

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The consolidated financial statements include the accounts of HSWI and our subsidiaries (1) HSW Brasil - Tecnologia e Informação Ltda., (2) HSW (HK) Inc. Limited, (3) Bonet (Beijing) Technology Limited Liability Company, and (4) BoWenWang Technology (Beijing) Limited Liability Company. The equity of certain of these entities is partially or fully held by citizens of the country of incorporation to comply with local laws and regulations.

Equity investments in which we exercise significant influence but do not control and are not the primary beneficiary are accounted for using the equity method. In the event of a change in ownership, any gain or loss resulting from an investee share issuance will be recorded in earnings. Investments in which we are not able to exercise significant influence over the investee are accounted for under the cost method. Controlling interest is determined by majority ownership interest and the ability to unilaterally direct or cause the direction of management and policies of an entity after considering any third-party participatory rights. The Company applies the guidelines set forth in Accounting Standards Codification ("ASC") ASC 810 in evaluating whether it has interests in VIEs (variable interest entity) and in determining whether to consolidate any such entities. All inter-company accounts and transactions between consolidated companies have been eliminated in consolidation.

We use qualitative analysis to determine whether or not we are the primary beneficiary of a VIE (variable interest entity). We consider the rights and obligations conveyed by our implicit and explicit variable interest in each VIE and the relationship of these with the variable interests held by other parties to determine whether our variable interests will absorb a majority of a VIE's expected losses, receive a majority of its expected residual returns, or both. If we determine that our variable interests will absorb a majority of the VIE's expected losses, receive a majority of its expected residual returns, or both, we consolidate the VIE as the primary beneficiary, and if not, we do not consolidate.

We have determined that Bonet (Beijing) Technology Limited Liability Company is a variable interest entity as defined in the ASC 810, "Consolidation." We are the primary beneficiary of this entity and accordingly, we have consolidated the results of this entity along with our other subsidiaries.

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We have determined that our interest in Sharecare is not a VIE. Additionally, we are not the primary beneficiary of this entity. Accordingly, we use the equity method to account for our investment in Sharecare.

**Revenue Recognition**

***Digital Online Publishing and Social Media Revenue***

We generally recognize online publishing revenue as visitors are exposed to or react to advertisements on our website. We generate revenue from advertising in the form of sponsored links and image ads. This includes both pay-per-performance ads and paid-for-impression advertising. In the pay-per-performance model, we earn revenue based on the number of clicks associated with such ads; in the paid-for-impression model (sponsorships), revenue is derived from the display of ads.

***Web Platform Services***

We recognize web platform services revenue at the time services related to the design, development, hosting, and related web services are performed. We record revenue on a gross versus net basis as we bear the risk of loss related to the services performed, the majority of which relates to services performed by HSWI resources. We are able to recognize all of the revenue generated from this effort when the services have been provided since we meet the criteria set forth in Staff Accounting Bulletin ("SAB") 104, *Revenue Recognition*; namely, the fees we charge are fixed or determinable, we and our customers understand the specific nature and terms of the agreed-upon transactions and collectability is reasonably assured.

We also recognize web platform services revenue on certain projects using a percentage of completion method. Sales are calculated based on the percentage that total costs incurred bear to total estimated costs at completion.

**Cost of Services**

***Digital Online Publishing***

The online publishing cost of revenue represents the cost of translating and localizing content and acquiring original content written by third parties.

***Social Media***

The social media cost of revenue represents the cost of acquiring original content written by third parties.

***Web Platform Services***

The web platform services cost of revenue represents labor cost to design, develop, host, launch and operate websites through our direct activities and management of third-party vendors. Additionally, cost of revenue represents the cost of acquiring content written by third parties as well site hosting costs.

**Concentration of Credit Risk and Accounts Receivable**

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and accounts receivable. At December 31, 2010, 99% of our cash was denominated in U.S. dollars, and 1% represented cash denominated in Brazilian *Reais*, Chinese *Renminbi* or Hong Kong dollars. All our cash is placed with financial institutions we believe are of high credit quality. Our cash is maintained in bank deposit accounts, which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe our cash is exposed to any significant credit risk. Cash held by non-US subsidiaries is subject to foreign currency fluctuations against the U.S. dollar. Our risk in foreign currency is somewhat mitigated at this time as U.S. funds are transferred monthly to Brazil and China to fund that month's operating activity. If, however, the U.S. dollar is devalued significantly against the Brazilian *Reais* or the Chinese *Renminbi*, the cost to further develop our websites in Brazil and China could exceed our original estimates.

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The majority of our accounts receivable balance as of December 31, 2010, is from Sharecare. We regularly evaluate the collectability of trade receivable balances based on a combination of factors such as customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment patterns. If we determine that a customer will be unable to fully meet its financial obligation, such as in the case of a bankruptcy filing or other material events impacting its business, we record a specific reserve for bad debt to reduce the related receivable to the amount expected to be recovered. The Company's revenue from Sharecare for the year ended December 31, 2010 and December 31, 2009, totaled approximately \$6 million and approximately \$1.9 million, respectively. The Company provides web platform services to Sharecare, and amounts due from Sharecare represented 73% of accounts receivable from affiliates as of December 31, 2010.

In April 2010, the Company entered into an agreement with Discovery Communications, LLC ("Discovery") to provide website development services to Discovery. The Company's web platform services revenue from Discovery, an affiliated entity, for the year ended December 31, 2010 totaled approximately \$527,000, and Discovery represented 27% of accounts receivable from affiliates as of December 31, 2010.

**Cash and Cash Equivalents**

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. We maintain our cash in financial institutions we believe are of high credit quality and do not believe any undue risk is associated with our cash balances. A large portion of the cash balance is maintained at one financial institution.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect amounts reported and disclosed in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, we evaluate our estimates, including those related to accounts receivable, intangible assets and useful lives of property and equipment, stock based compensation, equity method investments, and income taxes, among other things.

**Income Taxes**

We account for taxes based on guidance in ASC 740. We recognize income taxes under the asset and liability method. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As a result, we are required to make many subjective assumptions and judgments regarding our income tax exposures, interpretations of, and guidance, surrounding income tax laws and regulations change over time. As a result, changes in our subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and consolidated statements of operations.

We intend to classify interest and penalties arising from unrecognized income tax positions in the statement of operations as general and administrative expenses if they occur. At December 31, 2009, and 2008, we had no accrued interest or penalties related to uncertain tax positions. The tax years 2008, 2007, 2006 and 2005 are not or have not been under examination but remain open to examination under IRS statute.

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**Stock Based Compensation**

We measure stock-based compensation at the grant date based on the calculated fair value of the award. We recognize the expense over the employee's requisite service period, generally the vesting period of the award. We estimate the fair value of stock options at the grant date using the Black-Scholes option pricing model with weighted average assumptions for the activity under our stock plans. Option pricing model input assumptions such as expected term, expected volatility and risk-free interest rate among others, impact the fair value estimate. Further, the forfeiture rate impacts the amount of aggregate compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. We estimate the fair value for restricted stock grants based on the market value at the grant date. Options vest based on meeting a minimum performance condition.

We do not recognize a deferred tax asset for unrealized tax benefits associated with the tax deductions in excess of the compensation recorded (excess tax benefit). We apply the "with and without" approach for utilization of tax attributes upon realization of net operating losses in the future. This method allocates stock-based compensation benefits last among other tax benefits recognized. In addition, we apply the "direct only" method of calculating the amount of windfalls or shortfalls.

**Foreign Currency**

The functional currency of our international subsidiaries is the local currency, *Reais* in Brazil, *Renminbi* in China or Hong Kong dollars. The financial statements of these subsidiaries are translated to U.S. dollars using month-end rates of exchange for assets and liabilities, and average rates of exchange for revenue, costs and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity. Net gains and losses resulting from foreign exchange transactions are recorded in selling, general and administrative expenses. Currency translation and transaction losses during 2010 and 2009 were not material to our consolidated financial statements.

**Purchase Price Allocations**

From time to time, we enter into material business combinations. In accordance to ASC 805, *Business Combinations*, the purchase price is allocated to the various assets acquired and liabilities assumed at their estimated fair value. Fair values of assets acquired and liabilities assumed are based upon available information and may involve us engaging an independent third party to perform an appraisal of tangible and intangible assets. Estimating fair values can be complex and subject to significant business judgment and most commonly impacts property, plant and equipment and intangible assets, including those with indefinite lives. Generally, we have, if necessary, up to one year from the date of acquisition to obtain all of the information that we have arranged to obtain and that is known to be obtainable to finalize the purchase price allocation. Until that time, the purchase price allocation may remain subject to change based on final valuations of assets acquired and liabilities assumed and may be subject to material revision.

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation. We compute depreciation, which is recorded within operating expenses in the consolidated statements of operations, using the straight-line method over the estimated useful lives of the assets, generally one to three years for computer equipment and software and three to five years for building improvements and office equipment. Costs represent the purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Repairs and maintenance are expensed as incurred. Betterments and capital improvements are capitalized and depreciated over the remaining useful life of the related asset. We record gains or losses from disposal of property and equipment to operations.

**Advertising Expenses**

We expense advertising costs in the year in which they are incurred. Advertising expense for each of the years ended December 31, 2010, and 2009 was approximately \$6,000 and \$45,000, respectively.

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**Commitments and Contingencies**

We record liabilities for loss contingencies arising from claims, assessments and litigation and other sources when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. In the opinion of management, after consultation with legal counsel, there are no material claims, assessments and litigation against the Company as of December 31, 2010.

**Impairment of Property and Equipment and Definite-Lived Intangible Assets**

Property and equipment and definite-lived intangible assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Such events include significant adverse changes in the business climate, the impact of significant customer losses, unanticipated current period operating or cash flow losses, forecasted continuing losses or a current expectation that an asset group will be disposed of before the end of its useful life. Recoverability of these assets is measured by a comparison of the carrying amounts to future net cash flows the assets are expected to generate. For purposes of recognition and measurement of an impairment loss, property and equipment and definite-lived intangible assets are grouped with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. As of September 30, 2009, and in anticipation of the planned disposition of the DailyStrength assets in 2009, we performed an impairment analysis on our assets in our social media reportable segment. The results indicated no impairment charge was required. Other than the sale of our DailyStrength assets, no other triggering events occurred that would have caused the Company to believe that the fair value of its property and equipment and definite-lived assets had declined below its carrying value.

**Impairment of Investments**

Investments are reviewed to determine if events have occurred which would indicate that a decrease in value has occurred which is other than temporary. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. We monitor our assets for potential impairment on an ongoing basis. No impairment charge has been recognized on our investment balances as of December 31, 2010 or 2009.

**Goodwill and Indefinite-Lived Intangible Assets Impairment**

Generally, we perform our annual assessment for impairment for goodwill and indefinite-lived intangible assets during the fourth quarter of the fiscal year, unless facts and circumstances require differently. For goodwill, we determine recoverability by comparing the estimated fair value of the reporting unit to which the goodwill applies to the carrying value, including goodwill, of that reporting unit using a discounted cash flow model. The Company tests its indefinite-lived intangible assets, which are licenses to operate in China, for impairment by utilizing discounted cash flow models to estimate their fair values. Estimating the fair value of the reporting unit and our long-lived intangible assets involve uncertainties, because management is required to develop numerous assumptions, including assumptions about the future growth and potential volatility in revenues and costs, capital expenditures, industry economic factors and future business strategy. The variability of the factors that management uses to perform our impairment tests depend on a number of conditions, including uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors and other conditions. Significant judgments in this area involve determining whether a triggering event has occurred, determining the future cash flows for the assets involved and determining the proper discount rate to be applied in determining fair value.

As of September 30, 2009, and in anticipation of the planned disposition of the DailyStrength assets, we performed an impairment analysis of our goodwill. The results indicated no impairment charge was required. We subsequently sold the DailyStrength assets



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to Sharecare and as of December 31, 2009 and 2010, no goodwill remains and therefore no impairment test was necessary. We performed an impairment test of our indefinite-lived intangible assets as of September 30, 2009, as a result of the planned disposition of the website trade names related to the Sharecare transaction. The results indicated no impairment charge was required. In October 2009, the website trade names were sold to Sharecare.

As a result our annual impairment test in the fourth quarter, we recorded indefinite-lived intangible asset impairment charges of \$489,000 during the year ended December 31, 2010, related to the licenses to operate in China. See Note 5.

**Net Loss per Share**

We compute net loss per share in accordance with ASC 260, *Earnings per Share*, which requires dual presentation of basic and diluted earnings or loss per share ("EPS").

We compute basic loss per share by dividing net loss applicable to common shareholders by the weighted average number of common shares outstanding during the period. We calculate diluted loss per share by dividing net loss by the weighted-average number of common shares and dilutive potential common shares, if any, outstanding during the period. Our stock options and warrants were not included in the computation of diluted loss per share because their effects are anti-dilutive.

**Recent Accounting Pronouncements**

In January 2010, the FASB issued authoritative guidance that expands the required disclosures about fair value measurements. This guidance provides for new disclosures requiring the Company to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring the Company to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. The adoption of this guidance did not have a material impact on our financial statements.

In November 2009, the FASB issued authoritative guidance that incorporates Amendments to FASB Interpretation No. 46(R) into the Accounting Standards Codification. The new requirements are effective as of the beginning of an enterprise's first fiscal year beginning after November 15, 2009 (January 1, 2010, for us). The adoption of this guidance did not have a material impact on our financial statements.

In June 2009, the FASB issued authoritative guidance that revises the approach to determining the primary beneficiary of a variable interest entity, or VIE, to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. This guidance is effective for fiscal years beginning after November 15, 2009 (January 1, 2010, for us), for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this guidance did not have a material impact on our financial statements.

In April 2009, the FASB issued authoritative guidance that provides additional guidance and disclosure requirements regarding the recognition and measurement of contingent assets acquired and contingent liabilities assumed in a business combination where the fair value of the contingent assets and liabilities cannot be determined as of the acquisition date. This guidance is effective for acquisitions occurring after January 1, 2009. The adoption of this guidance did not have any impact on the Company, and its future impact will be dependent upon the specific terms of future business combinations, if any.

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**4. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

As of December 31, 2010 and 2009, prepaid expenses and other assets consisted of the following:

	<b>As of December 31,</b>	
	<b>2010</b>	<b>2009</b>
Prepaid insurance	\$ 348,936	\$ 510,838
Deposits and other current assets	217,238	277,134
<b>Total</b>	<b>\$ 566,174</b>	<b>\$ 787,972</b>

**5. GOODWILL AND INTANGIBLE ASSETS**

In accordance with ASC 350 and the planned sale of the DailyStrength assets, the Company performed an impairment analysis on the goodwill balance related to the DailyStrength business as of September 30, 2009. In performing the impairment assessment, the Company estimated the fair value of its single reporting unit that had goodwill using the Income Approach (discounted cash flow analysis) — the discounted cash flow (“DCF”) valuation method requires an estimation of future cash flows of an entity and then discounting those cash flows to their present value using an appropriate discount rate. The discount rate selected reflects the risks inherent in the projected cash flows. The key inputs and assumptions of the DCF method are the projected cash flows, the terminal value of the entity, and the discount rate.

Based upon the results of the impairment assessment the Company did not believe that its goodwill related to the DailyStrength reporting unit was impaired as of September 30, 2009. In making the determination that goodwill was not impaired at September 30, 2009, the Company considered both qualitative and quantitative factors.

As a result of our annual impairment test in the fourth quarter, we recorded indefinite-lived intangible asset impairment charges of \$489,000 during the year ended December 31, 2010, related to the licenses to operate in China. We recorded the impairment charge related to the licenses to operate in China in “impairment loss” in our consolidated statements of operations. The calculation of the fair value of the Company’s intangible asset was performed consistently with the annual test performed at December 31, 2009, with updated assumptions where appropriate. The most significant change to the prior year valuation was due to changes in key assumptions used to determine the valuation of the China licenses based on recent indications of an easing of restrictions for entry into China’s business environment, specifically assumptions regarding the time and cost required to obtain similar licenses by a hypothetical new market participant (See Note 6)

As a result of our annual impairment test in the fourth quarter, we recorded indefinite-lived intangible asset impairment charges of \$1.2 million during the year ended December 31, 2009, related to the licenses to operate in China. We present the impairment charge related to the licenses to operate in China in “impairment loss” in our consolidated statement of operations. The calculation of the fair value of the Company’s intangible asset was performed consistently with the annual test performed at December 31, 2008, with updated assumptions where appropriate. The most significant change to the prior year valuation was a downward revision to projected cash flows due to declines in the Company’s projected sales in China from its previous projections.

The following table presents a summary of the activity related to the carrying value of goodwill (figures in thousands):

	<b>Years Ended</b>
	<b>December 31,</b>
	<b>2009</b>
<b>Balance as of January 1:</b>	
Goodwill	\$ 31,031,326
Accumulated Amortization	(29,058,382)
<b>Net Balance</b>	<b>\$ 1,972,944</b>
<b>Goodwill acquired during the year</b>	
Goodwill write off due to disposition (see Note 2 and 3)	(1,972,944)
Accumulated losses	—
<b>Balance as of December 31</b>	<b>\$ —</b>

Our Brazil operation has recorded indefinite-lived intangible assets of \$16,429 as of December 31, 2010 and 2009, for website domain names.

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Intangibles include the following as of December 31, 2010 and 2009:

**As of December 31, 2010**

	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Disposals</u>	<u>Adjustments</u>	<u>Net</u>
Intangible assets not subject to amortization:					
Licenses related to China	969,560	-	-	(488,560)	481,000
Site domains	16,429	-	-	-	16,429
Subtotal	985,989	-	-	(488,560)	497,429
Total	<u>\$ 985,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (488,560)</u>	<u>\$ 497,429</u>

**As of December 31, 2009**

	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Disposals</u>	<u>Adjustments</u>	<u>Net</u>
Intangible assets subject to amortization:					
Non-compete agreement	\$ 353,700	\$ (98,250)	\$ (255,450)	\$ -	\$ -
Website features	151,574	(18,040)	(133,534)	-	-
Website content	117,152	(16,270)	(100,882)	-	-
Member relationships	63,000	(4,770)	(58,230)	-	-
Subtotal	685,426	(137,330)	(548,096)	-	-
Intangible assets not subject to amortization:					
Website trade name	988,000	-	(988,000)	-	-
Licenses related to China	2,150,000	-	-	(1,180,440)	969,560
Site domains	16,429	-	-	-	16,429
Subtotal	3,154,429	-	(988,000)	(1,180,440)	985,989
Total	<u>\$ 3,839,855</u>	<u>\$ (137,330)</u>	<u>\$ (1,536,096)</u>	<u>\$ (1,180,440)</u>	<u>\$ 985,989</u>

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**6. FAIR VALUE MEASUREMENTS ON A NONRECURRING BASIS**

The Company applies the guidance in ASC 820 to nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). To measure fair value, the Company incorporates assumptions that market participants would use in pricing the asset or liability, and utilizes market data to the maximum extent possible. In accordance with ASC 820, measurement of fair value incorporates nonperformance risk (i.e., the risk that an obligation will not be fulfilled). In measuring fair value, the Company reflects the impact of its own credit risk on its liabilities, as well as any collateral. The Company also considers the credit standing of its counterparties in measuring the fair value of its assets.

As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 – Inputs, other than the quoted market prices included in Level 1, which are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market data available.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following tables present losses related to the Company’s assets and liabilities that were measured at fair value on a nonrecurring basis during the year ended December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Losses</u>
Licenses to operate in China	\$ 481,000	\$ -	\$ -	\$ 481,000	\$ (488,560)

The Company tests its indefinite-lived intangible assets, which are licenses to operate in China, for impairment by utilizing discounted cash flow models to estimate their fair values. These cash flow models involve several assumptions. Changes in the Company’s assumptions could materially impact its fair value estimates. Assumptions critical to its fair value estimates are: (i) weighted-average cost of capital rates used to derive the present value factors used in determining the fair value; (ii) projected annual revenue growth rates used in the models; and (iii) projected long-term growth rates used in the derivation of terminal year values. The valuation of our China licenses requires us to estimate the period of time a hypothetical market participant, which we define as an internet company wishing to establish a presence in China, would need to obtain our Chinese business and internet licenses.

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Other assumptions include estimates of projected capital expenditures, upfront costs incurred to obtain similar licenses, and working capital requirements. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period-specific facts and circumstances.

The following table presents the range of assumptions the Company used to derive its fair value estimates for the China reporting units during the impairment test conducted in the fourth quarter of 2010.

	<u>Assumptions</u>
Weighted-average cost of capital	28%
Long-term growth rates	7.0%
Annual revenue growth rates	17.0-1565.0%
Time required to obtain similar licenses	4.5 months

**7. PROPERTY AND EQUIPMENT, NET**

As of December 31, 2010 and 2009, property and equipment consisted of the following:

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2009</u>
Computer equipment	\$ 569,440	\$ 512,696
Furniture and fixtures	113,071	125,523
Software	267,896	258,616
Leasehold improvements	193,401	136,992
Total	<u>1,143,808</u>	<u>1,038,827</u>
Less accumulated depreciation	<u>(837,348)</u>	<u>(543,521)</u>
Property and equipment, net	<u>\$ 306,460</u>	<u>\$ 490,306</u>

Depreciation expense was \$295,529 and \$310,828 for the years ended December 31, 2010, and 2009, respectively.

Approximately 59%, 13% and 28% of our property and equipment, net, are in the U.S., China and Brazil, respectively.

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**8. INCOME TAXES**

The income tax benefit is comprised of the following:

	<u>Year Ended December 31, 2010</u>	<u>Year Ended December 31, 2009</u>
<b>Current:</b>		
Federal	\$ -	\$ -
State	-	-
Foreign	902	-
Total	<u>-</u>	<u>-</u>
<b>Deferred:</b>		
Federal	-	(335,920)
State	-	(57,600)
Foreign	(122,140)	(295,110)
Total	<u>(122,140)</u>	<u>(688,630)</u>
Total	<u>\$ (121,238)</u>	<u>\$ (688,630)</u>

The provision for income taxes for the years ended December 31, 2010 and 2009 differs from the amount computed by applying the U.S. income tax rate of 34% to loss before taxes as follows:

	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Computed "expected" tax expense	\$ (2,048,948)	\$ (4,273,768)
Equity in loss of equity-method investment	517,717	278,150
Sharecare stock acquisition	-	759,531
State taxes, net of federal benefit	(167,067)	(1,241,698)
Change in valuation allowance	1,356,007	3,497,921
Tax effect of losses and rates in non-US jurisdictions	169,089	260,400
Tax effect of other permanent items	51,371	30,834
Other	593	-
Total	<u>\$ (121,238)</u>	<u>\$ (688,630)</u>

Income before income taxes was comprised of the following:

	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Domestic	\$ (4,830,570)	\$ (10,784,221)
Foreign	(1,195,747)	(1,785,685)
Total	<u>\$ (6,026,317)</u>	<u>\$ (12,569,906)</u>

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Deferred income taxes reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial reporting basis and are reflected as current or non-current depending on the classification of the asset or liability generating the deferred tax. The deferred tax provision for the periods shown represents the effect of changes in the amounts of temporary differences during those periods.

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 12,434,401	\$ 11,191,425
Amortization	66,321	115,523
Depreciation of fixed assets	45,995	24,477
Deferred income and reserves	124,965	101,490
Stock-based compensation expense	8,954,255	8,852,793
Less: Valuation allowance	<u>(20,999,839)</u>	<u>(19,081,594)</u>
<b>Total deferred tax assets</b>	<b>626,098</b>	<b>1,204,114</b>
<b>Deferred tax liabilities:</b>		
Acquired intangibles	(120,250)	(242,390)
Foreign exchange gain/loss	(6,360)	(6,360)
Differences related to stock basis in equity investment	(619,738)	(1,197,754)
<b>Total deferred tax liability</b>	<b><u>(746,348)</u></b>	<b><u>(1,446,504)</u></b>
<b>Net deferred tax liability</b>	<b><u>\$ (120,250)</u></b>	<b><u>\$ (242,390)</u></b>

The following table represents a rollforward of the valuation allowances against deferred tax assets for fiscal 2010 and 2009:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Balance at the beginning of period	\$ 19,081,594	\$ 15,108,498
Increase related to net operating loss and costs and expenses incurred in the current year	1,878,253	2,870,584
Change related to prior year true-ups	(4,530)	802,754
Effect of foreign exchange rate differences	44,522	299,758
Balance at end of period	<b><u>\$ 20,999,839</u></b>	<b><u>19,081,594</u></b>

The net operating losses available at December 31, 2010, to offset future taxable income in the U.S. federal and state, Hong Kong, China and Brazil jurisdictions are \$27,866,881, \$24,517,012, \$395,900, \$2,303,291 and \$8,388,906, respectively. The income tax rates for Hong Kong, China and Brazil are 16.5%, 25% and 15%, respectively. The net operating losses in the U.S. include losses in the amount of \$3.9 million related to the purchase of DailyStrength. The U.S. net operating losses are subject to certain rules under Internal Revenue Code Section 382 limiting their annual usage. The federal net operating losses expire between the years 2024 and 2030. The state net operating losses expire between the years 2016 and 2030. The net operating losses generated in Hong Kong have no expiration date and carry forward indefinitely. The net operating losses generated in China have a five year carryover period. The net operating losses generated in Brazil have no expiration date and up to 30% of the net operating loss may be utilized each year.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We consider the reversal of existing taxable temporary differences, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable losses, we believe it is not more likely than not that we will realize the benefits of these deductible differences as of December 31, 2010. Therefore, a valuation allowance has been provided for all the deferred tax assets.

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We had no unrecognized tax benefits for the years ended December 31, 2010 and 2009. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

We file U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2004 through 2009 tax years generally remain subject to examination by federal and most state tax authorities with respect to net operating losses. In significant foreign jurisdictions, the 2007 through 2009 tax years generally remain subject to examination by their respective tax authorities.

## **9. STOCKHOLDERS' EQUITY**

### ***Common Stock***

On February 16, 2010, the Company conducted a reverse split of its common stock, par value \$0.001, at a ratio of 10-for-1 (the "Reverse Split"), at which time each share of common stock was automatically reclassified as and converted into one-tenth of a share of common stock. Each stockholder's percentage ownership in the Company and proportional voting power remained unchanged by the Reverse Split, except for those adjustments resulting from stockholders receiving cash in lieu of fractional shares. In connection with the Reverse Split, the number of authorized shares of the Company's capital stock was reduced accordingly by a ratio of 10-for-1. For comparability purposes, all references to HSWI stock within this document has been adjusted to reflect the effects of the Reverse Split, except where otherwise indicated.

Subsequent to the Reverse Split, the par value per share of the common stock remained unchanged at \$0.001 per share. As a result, on the effective date of the Reverse Split, the stated capital on the Company's consolidated balance sheet attributable to common stock was reduced and the additional paid-in capital account was increased by the amount by which the stated capital is reduced. The per share net income or loss was increased because there are fewer shares of the Company's common stock outstanding. The Company does not anticipate that there will be any impact to the results of our operations, including changes to the amount of stock-based compensation expense to be recognized in any period, as a result of the reverse stock split. Additionally, employee and director share and option grants as well as associated exercise prices were adjusted in the same proportion as the Reverse Split. Each share of our common stock entitles its holder to one voting right.

### ***Stock Based Compensation***

HSWI has authorized 800,000 shares under the 2006 Equity Incentive Plan adopted April 13, 2006 (the "2006 Plan"), and an additional 275,000 shares authorized under the 2010 Equity Incentive Plan adopted June 15, 2010 (the "2010 Plan"), for grant as part of long term incentive plans to attract, retain and motivate its eligible executives, employees, officers, directors and consultants. Options to purchase common stock under the 2006 and 2010 Plans have been granted to our officers and employees with an exercise price equal to the fair market value of the underlying shares on the date of grant.

On March 25, 2009, we granted 8,000 shares of restricted stock to members of our Board of Directors. The grant date fair value was \$1.80 per share. Of the 8,000 shares granted, 6,570 shares vested on December 31, 2009.

On November 5, 2009, we granted stock options covering 63,500 shares at an exercise price of \$3.90 per share. These options vest three years from the grant date.

On November 20, 2009, we granted stock options covering 52,000 shares at an exercise price of \$3.85 per share. These options vest three years from the grant date.

On June 15, 2010, we granted 8,000 shares of restricted stock to members of our Board of Directors. The grant date fair value was \$2.10 per share. Of the 8,000 shares granted, 7,100 shares vested on December 31, 2010.



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On July 17, 2010, we granted stock options covering 9,020 shares at an exercise price of \$3.85 per share. These options vest two years from the grant date.

On September 21, 2010, we granted stock options covering 140,000 shares at an exercise price of \$6.06 per share. These options vest in three years.

The per share fair value of the stock options granted, estimated on the date of the grant, was \$3.70 for the 2009 Grants, and \$1.80 for the 2009 restricted stock grants and a range of \$3.73 to \$5.94 for the 2010 Grants, and \$2.10 for the 2010 restricted stock grants. We use the Black-Scholes options pricing model to value our options, using the assumptions in the following table. Expected volatilities are based on the historical volatility of our stock. The expected term of options represents the period of time that the options granted are expected to be outstanding. The company uses the midpoint method to estimate the expected term for options granted as sufficient historical data regarding exercise of options is not available nor information readily available regarding comparable plans sufficient to use as a basis to estimate the expected term value. The risk-free rate of periods during the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is based on expected dividends to be paid over the term of the options.

	<u>2010 Grants</u>	<u>2009 Grants</u>
Expected volatility	185.6% - 197.7%	147.5%
Expected life in years	5.75 - 6.25	7
Dividend yield	—	—
Risk free interest rate	1.34% - 1.99%	2.90% - 3.06%

In accordance with ASC 718, stock-based compensation cost is measured at grant date based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. Stock-based compensation expense for the years ended December 31, 2010, and 2009, were \$266,000 and \$1.8 million, respectively. Unrecognized compensation expense as of December 31, 2010, relating to non-vested stock options approximated \$987,000 and is expected to be recognized through 2013. At December 31, 2010, no options have been exercised under this plan. Stock options have a maximum term of 10 years from the grant date.

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A summary of stock option activity and related information as of December 31, 2010, and changes during the year then ended (as adjusted for the Reverse Split), is presented below:

<b>Options</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contract term (yrs)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2010	787,659	\$ 55.60	7.1	\$ -
Granted	149,020	5.93	9.7	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Total outstanding at December 31, 2010	<u>936,679</u>	<u>\$ 56.19</u>	<u>6.1</u>	<u>\$ -</u>
Options exercisable at December 31, 2010	<u>761,552</u>	<u>\$ 59.44</u>	<u>6.1</u>	<u>\$ -</u>

\*The intrinsic value of these options is \$0.00 due to the exercise price of the options significantly exceeding the present market price of the shares.

The fair value of options vested during the years ended December 31, 2010 and 2009, were \$0.2 million and \$2.4 million, respectively.

As of December 31, 2010, no securities remain for future issuance under the 2006 Equity Incentive Plan.

Restricted Stock activity during the year ended December 31, 2010 is shown in the following table. A summary of restricted stock activity and related information as of December 31, 2010, and changes during the year then ended (as adjusted for the Reverse Split) is presented below:

<b>Shares</b>	<b>Number of shares</b>	<b>Weighted average grant date fair value</b>
Unvested balance, January 1, 2010	—	\$ —
Granted	8,000	2.1
Vested	(7,100)	2.1
Forfeited	(900)	2.1
Total unvested at December 31, 2010	<u>—</u>	<u>\$ —</u>

The total fair value of restricted stock vested during the year ended December 31, 2010 was approximately \$15,000.

As of December 31, 2010, there was no unrecognized compensation expense relating to non-vested restricted stock.

There was no forfeiture, expiration or exercise of options related to the INTAC merger. As of December 31, 2010 the number of options outstanding was 25,000. The options had a weighted average exercise price of \$54.90 and a weighted average remaining contract term of 2.8 years.

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**10. EARNINGS PER SHARE**

The following is a reconciliation of the numerators and denominators of our basic and diluted earnings per share computations:

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Loss per share:</b>		
Net loss	\$ (5,905,079)	\$ (11,881,276)
Weighted average shares outstanding, basic and diluted	5,368,419	5,361,767
<b>Basic and diluted loss per share</b>		
Net loss	\$ (1.10)	\$ (2.22)
Weighted average shares outstanding	5,368,419	5,361,767
Dilutive stock options	—	—
Total common shares and dilutive securities	5,368,419	5,361,767

Stock options and warrants are not included in the diluted earnings per share calculation above as they are anti-dilutive. The number of anti-dilutive weighted average shares outstanding excluded from the calculation above was 883,836 and 767,836 for the years ended December 31, 2010 and 2009 respectively.

**11. RELATED PARTY TRANSACTIONS**

On October 30, 2009, the Company entered into and effectuated a series of transactions with Sharecare, a related party. As a result of these transactions, the Company received an equity stake in Sharecare, sold substantially all of the assets of its DailyStrength subsidiary to Sharecare, agreed to provide management and website development services to Sharecare, and received a limited license to use the Sharecare web platform for its own businesses. Through the services agreement, HSWI continues to provide support services to the DailyStrength website. Additionally, the Company issued a promissory note to Sharecare, all of which was offset by services the Company provided to Sharecare during 2009. There was no outstanding balance on the note as of October 30, 2009. Finally, Sharecare assumed the potential earn-out payment of up to \$3.525 million under the merger agreement by which the Company acquired DailyStrength. We entered into each of these transactions simultaneously.

Jeff Arnold, a former member of HSWI's Board of Directors, is the Chairman and Chief Architect and a significant stockholder of Sharecare. Additionally, Discovery Communications, Inc., HSWI's largest stockholder, is a significant stockholder of Sharecare. Until December 17, 2009, Bruce Campbell, President of Digital Media and Business Development for Discovery Communications, was a member of HSWI's Board of Directors. HSWI's Board of Directors established a Special Committee on May 18, 2009, consisting of three independent directors without any interests in Sharecare to evaluate and recommend the terms of these transactions to the Board. The Special Committee engaged a third party financial adviser to provide a fairness opinion on the totality of the transactions. All terms recommended by the Special Committee were unanimously approved by the Board, with Mr. Arnold and Mr. Campbell abstaining from voting.

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The Company's revenue from Sharecare for the years ended December 31, 2010 and 2009 totaled approximately \$6 million and approximately \$1.9 million, respectively. As of December 31, 2010, HSWI owned approximately 16.5% of the outstanding common stock of Sharecare. The Company provides web platform services to Sharecare, and amounts due from Sharecare represented 73% of accounts receivable from affiliates as of December 31, 2010.

In April 2010, the Company entered into an agreement with Discovery Communications, LLC ("Discovery") to provide website development services to Discovery. The Company's web platform services revenue from Discovery, an affiliated entity, for the year ended December 31, 2010 totaled approximately \$527,000, and Discovery represented 27% of accounts receivable from affiliates as of December 31, 2010.

On March 30, 2010, the Company entered into a 24-month sublease agreement with Sharecare for rental of our corporate headquarters in Atlanta, Georgia, effective March 1, 2010. Total rent expense for 2010 was approximately \$203,000.

As of December 31, 2010 and 2009, the Company had an outstanding liability due to its affiliate, Discovery, of approximately \$86,000.

## **12. SEGMENTS**

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Because of our integrated business structure, operating costs included in one segment can benefit other segments, and therefore these segments are not designed to measure operating income or loss directly related to the products included in each segment. Reconciling amounts include adjustments to conform with U.S. GAAP and corporate-level activity not specifically attributed to a segment. Corporate expenses include, among other items: corporate-level general and administration costs, technology costs and on-going maintenance charges; share-based compensation expense related to stock and stock option grants; depreciation and amortization expense; and interest expense and income.

The Company reported two operating segments for the first three quarters of 2009: (1) social media; and (2) digital online publishing. Our social media segment was comprised of our DailyStrength operations, which generated revenues from the advertisers based primarily in the United States. We sold substantially all of the assets of the social media segment to a related party, Sharecare, on October 30, 2009. Subsequently, we no longer have activity within that segment. Our digital online publishing segment consists of our websites in Brazil and China and generates revenues from advertisers based in the respective countries.

In October 2009 the Company entered into a Letter Agreement for Services with Sharecare pursuant to which the Company agreed to perform services related to the design, development, hosting and related services necessary to launch and operate the Sharecare website through our direct activities and management of third party vendors. The operating results for services performed under the Sharecare services agreement and other similar service agreements are included in the web platform services segment.

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Revenue, operating loss and total assets regarding reportable segments are presented in the following tables:

	<u>Digital Online Publishing</u>	<u>Social Media</u>	<u>Web Platform Services</u>	<u>Corporate</u>	<u>Total</u>
<b>Year Ended December 31, 2010</b>					
Revenue	\$ 190,712	\$ -	\$ 6,464,352	\$ -	\$ 6,655,064
Operating (loss) income	(1,196,653)	-	1,119,007	(4,440,488)	(4,518,134)
Interest income	-	-	-	14,514	14,514
Other income (expense)	-	-	-	(1,523,599)	(1,523,599)
Income tax benefit	-	-	-	122,140	122,140
(Loss) income from operations	<u>\$ (1,196,653)</u>	<u>\$ -</u>	<u>\$ 1,119,007</u>	<u>\$ (5,827,433)</u>	<u>\$ (5,905,079)</u>

	<u>Digital Online Publishing</u>	<u>Social Media</u>	<u>Web Platform Services</u>	<u>Corporate</u>	<u>Total</u>
<b>Year Ended December 31, 2009</b>					
Revenue	\$ 196,942	\$ 194,458	\$ 1,868,416	\$ -	\$ 2,259,816
Operating (loss) income	(1,785,685)	(1,100,153)	375,000	(9,450,642)	(11,961,480)
Interest income	-	-	-	50,515	50,515
Other income	-	160,000	-	(818,941)	(658,941)
Income tax benefit	-	393,520	-	295,110	688,630
(Loss) income from operations	<u>\$ (1,785,685)</u>	<u>\$ (546,633)</u>	<u>\$ 375,000</u>	<u>\$ (9,923,958)</u>	<u>\$ (11,881,276)</u>

	<u>December 31, 2010</u>	<u>December 31, 2010</u>
<b>Total assets:</b>		
Web platform services	\$ 658,944	\$ 469,185
Social media	-	19,751
Digital online publishing	400,660	563,363
Business segments	1,059,604	1,052,299
Corporate	8,828,172	14,853,610
Total assets	<u>\$ 9,887,776</u>	<u>\$ 15,905,909</u>

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
(expressed in U.S. Dollars)

	<b>Year Ended 2010</b>	<b>Year Ended 2009</b>
<b>Total investment in unconsolidated entity:</b>		
Business segments	—	—
Corporate	2,972,135	4,405,304
<b>Total investment in unconsolidated entity</b>	<b>\$ 2,972,135</b>	<b>\$ 4,405,304</b>
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
<b>Total equity in income of unconsolidated entity:</b>		
Business segments	—	—
Corporate	(1,522,697)	(818,087)
<b>Total equity in loss of unconsolidated entity</b>	<b>\$ (1,522,697)</b>	<b>\$ (818,087)</b>

In the table below is a summary of select financial information by country in which the Company has operations.

	<b>For the Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>		
United States	\$ 6,464,352	\$ 2,062,874
Brazil	176,295	177,900
China	14,417	19,042
<b>Total revenues</b>	<b>\$ 6,655,064</b>	<b>\$ 2,259,816</b>

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
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(expressed in U.S. Dollars)

	<b>As of December 31,</b>	
	<b>2010</b>	<b>2009</b>
Long-lived assets:		
United States	\$ 660,257	\$ 1,256,879
Brazil	102,510	151,604
China	41,122	74,043
Total long-lived assets	<u>\$ 803,889</u>	<u>\$ 1,482,526</u>

**13. COMMITMENTS AND CONTINGENCIES**

**Commitments**

We have entered into operating leases for office space. Rental expense for operating leases, which is recognized on a straight-line basis over the lease term, was \$33,980 and \$466,861 for years ended December 31, 2010 and 2009, respectively. We do not have any capital leases.

The following table summarizes the approximate future minimum rental obligations under non-cancelable operating leases in effect at December 31, 2010:

	<b>Operating Lease Commitments</b>
2011	\$ 381,878
2012	204,072
2013	233,799
2014	240,851
2015	298,011
Thereafter	102,728
Total	<u>\$ 1,461,339</u>

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(expressed in U.S. Dollars)**

**14. SUBSEQUENT EVENTS**

On January 26, 2011, the Company entered into the Third Amendment to the Letter Agreement for Services, by and between Sharecare, Inc. and HSWI. The Third Amendment extends the term of the Agreement from December 31, 2010 to December 31, 2011.

On March 4, 2011, the Company entered into a senior revolving credit agreement with Theorem Capital, LLC (the "Lender") pursuant to which the Lender has agreed to extend HSWI a line of credit of up to \$1.0 million for a period of one year from March 4, 2011, subject to renewal by the Lender, at its sole discretion, for an additional one-year period. Under the terms of the credit agreement, HSWI may, in its sole discretion, borrow from the Lender up to \$1.0 million from time to time during the term of the credit agreement, in minimum loan amounts of \$200,000. HSWI entered into this senior revolving credit agreement to provide flexibility as HSWI builds and executes upon its social media content strategy.

Any borrowings under the credit agreement will be senior unsecured indebtedness of HSWI and may be used for HSWI's working capital and general corporate purposes. Any borrowings will be due and payable, with accrued interest thereon, on March 4, 2012, subject to any renewal of the line of credit, at the Lender's discretion. During the term of the credit agreement, any principal amounts repaid by HSWI may be re-borrowed.

Borrowings under the credit agreement will bear interest at a fixed rate equal to 8% per annum, payable on or before March 4, 2012, unless the line of credit is renewed and the payment date extended, in which case interest shall be payable on or before March 4, 2013.

HSWI paid the Lender a commitment fee of \$20,000 in consideration of its making the line of credit available to HSWI. In addition, HSWI will pay the Lender a renewal fee of \$20,000 if the line of credit is renewed for an additional year beyond March 4, 2012.

HSWI has also given the Lender the right to purchase up to \$1.0 million in shares of common stock or other equity securities of HSWI offered to other investors in financing transactions on the same terms as offered to those other investors and the Lender will have the further right to apply against the purchase price of any securities it elects to purchase any unpaid principal of, and unpaid accrued interest on, any borrowings under the credit agreement (with HSWI's payment obligation with respect to any such amounts being deemed fully satisfied). These purchase rights terminate following the first financing involving HSWI's sale of at least \$1.0 million of its common stock or other securities, referred to as a Qualified Financing, or at such time as the dollar amount of investments made by the Lender under this provision of the credit agreement equals \$1,000,000. Any investment by the Lender under this provision of the credit agreement will not be counted toward the determination of a Qualified Financing.

The credit agreement contains covenants that HSWI considers usual and customary for an agreement of this type, including restrictions on incurring additional indebtedness, maximum trade obligations and accrued expenses and other current liabilities, use of loan proceeds and payment of dividends. Upon the occurrence of an event of default, including payment defaults, breaches of covenants, insolvency proceedings and events having a material adverse effect on HSWI's financial condition, business assets, operations or property, the Lender may declare all outstanding obligations under the credit agreement due and payable and the aggregate unpaid principal balance of any borrowings and, to the extent permitted by applicable law, any other obligations under the credit agreement will bear interest at a default rate of 11% per annum until the event of default is waived or cured or all outstanding obligations are paid in full.



**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
(expressed in U.S. Dollars)

**15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The following table sets forth our unaudited quarterly results of operations for the eight quarters ended December 31, 2010.

**Three Months Ended**

	<u>March 31, 2010</u>	<u>June 30, 2010</u>	<u>September 30, 2010</u>	<u>December 31, 2010</u>
Revenue	\$ 1,374,111	\$ 1,439,958	\$ 2,038,441	\$ 1,802,554
Operating expenses	(1,579,357)	(1,375,895)	(921,590)	(1,892,148)
Loss from operations	(1,354,550)	(1,048,471)	(581,572)	(1,534,460)
Other expense	(72,223)	(525,124)	(657,643)	(277,691)
Deferred income tax benefit	-	-	-	122,140
Net loss	<u>\$ (1,426,773)</u>	<u>\$ (1,573,595)</u>	<u>\$ (1,239,215)</u>	<u>\$ (1,690,011)</u>
Net loss per basic and diluted share	<u>\$ (0.27)</u>	<u>\$ (0.29)</u>	<u>\$ (0.23)</u>	<u>\$ (0.31)</u>
Basic weighted average shares outstanding, basic and diluted	<u>5,369,829</u>	<u>5,369,829</u>	<u>5,368,399</u>	<u>5,368,476</u>

**HSW INTERNATIONAL, INC. and SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(expressed in U.S. Dollars)**

**Three**

**Months Ended**

	<b><u>March 31,</u></b> <b><u>2009</u></b>	<b><u>June 30, 2009</u></b>	<b><u>September 30,</u></b> <b><u>2009</u></b>	<b><u>December 31,</u></b> <b><u>2009</u></b>
Revenue	\$ 126,330	\$ 88,154	\$ 91,067	\$ 1,954,265
Operating expenses	<u>(3,537,947)</u>	<u>(3,480,443)</u>	<u>(3,230,176)</u>	<u>(3,974,433)</u>
Loss from operations	(3,411,617)	(3,392,289)	(3,139,109)	(2,020,168)
Other income (expense)	175,492	16,258	11,160	(810,481)
Deferred income tax benefit	-	-	393,520	295,110
Net loss	<u>\$ (3,236,125)</u>	<u>\$ (3,376,031)</u>	<u>\$ (2,734,429)</u>	<u>\$ (2,535,539)</u>
Net loss per basic and diluted share	<u>\$ (0.60)</u>	<u>\$ (0.63)</u>	<u>\$ (0.51)</u>	<u>\$ (0.47)</u>
Basic weighted average shares outstanding, basic and diluted	<u>5,361,486</u>	<u>5,361,829</u>	<u>5,361,829</u>	<u>5,361,916</u>

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management, including our Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2010.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls can prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

**Management's Annual Report On Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of our Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2010, based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2010.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2010 that materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**  
**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**DIRECTORS**

The name of and certain information regarding each director as of March 28, 2011, is set forth below. There are no family relationships among directors, director nominees or executive officers of HSWI. Each director is elected to serve until the next Annual Meeting of Shareholders.

<b>Name</b>	<b>Age</b>	<b>Position with HSWI</b>
Scott Booth December 17, 2009	42	Director
Theodore P. Botts October 2, 2007	65	Director
Arthur F. Kingsbury December 14, 2007	62	Director
James A. Rosenstock III February 2, 2011	38	Director
Gregory M Swayne December 17, 2009	52	Chairman of the Board of Directors and Chief Executive Officer
Kai-Shing Tao October 2, 2007	34	Director

*Scott Booth*, age 42, has served as a member of HSWI's Board of Directors since December 2009. Mr. Booth is the Managing Partner for Eastern Advisors, LLC, an investment fund that invests in public and private companies, and has served in that capacity since the fund's formation in April 2003. Among other experience, qualifications, attributes and skills, Mr. Booth's knowledge and experience in the finance industry, investing environment, and Asian markets led to the conclusion of our Nominating and Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

*Theodore P. Botts*, age 65, has served as a member of HSWI's Board of Directors since 2007. He is also President of Kensington Gate Capital, LLC, a private corporate finance advisory firm. From July 2007 until September 2008, Mr. Botts served as Chief Financial Officer of StereoVision Entertainment, Inc. Since 2002 until its merger with HSW International, Mr. Botts served on INTAC International's board of directors as chairman of the audit committee. Prior to 2000, Mr. Botts served in executive capacities at UBS Group and Goldman Sachs. Mr. Botts is also a member of the Board of Trustees and head of development for REACH Prep, a non-profit organization serving the educational needs of underprivileged African-American and Latino children in Fairfield and Westchester counties since 2003. Mr. Botts graduated with honors from Williams College and received an MBA from the NYU Graduate School of Business Administration. Among other experience, qualifications, attributes and skills, Mr. Botts's knowledge and experience in the corporate finance industry and in senior leadership roles in organizations in the technology industry led to the conclusion of our Nominating and Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

*Arthur F. Kingsbury*, age 62, has served as a member of HSWI's Board of Directors since 2007. He is currently a private investor. Mr. Kingsbury has over 35 years of business and financial experience in the media and communications sectors. His experience includes financial, senior executive and director positions at companies engaged in newspaper publishing, radio broadcasting, database publishing, internet research, cable television and cellular telephone communications. Specific positions included President and COO of VNU-USA, Inc., Vice Chairman and COO of BPI Communications, Inc., and CFO of Affiliated Publications, Inc. Mr. Kingsbury has served as a director on the boards of three other publicly traded companies, NetRatings (NASDAQ), Affiliated Publications (NYSE-listed publisher of the Boston Globe), and McCaw Cellular (NASDAQ), and currently serves on the boards of Dolan Media (NYSE) and Solera Holdings (NYSE). Mr. Kingsbury holds a BSBA in Business Administration from Babson College. Among other experience, qualifications, attributes and skills, Mr. Kingsbury's experience in corporate finance and strategic transactions, as well as his serving on boards of directors and holding senior leadership positions with publicly traded companies in the communications and publishing industries, led to the conclusion of our Nominating and Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

*James A. Rosenstock III*, age 38, has served as a member of HSWI's Board of Directors since February 2011. Mr. Rosenstock has been Senior Vice President, Corporate Development at Discovery Communications since 2007, where he oversees global mergers and acquisitions, corporate strategy, and new business development. From 2002 to 2007, Mr. Rosenstock was Vice President, Corporate Development and M&A at Sony Corporation of America. Previously Mr. Rosenstock was an investment banker to the media and entertainment industry, most recently at Credit Suisse First Boston. Mr. Rosenstock is a graduate of Virginia Tech's Pamplin College of Business and serves on its Finance Department's Advisory Board. Mr. Rosenstock is also a board member of Sharecare, Inc., a private partnership between HSW International, Dr. Mehmet Oz, Harpo Productions, Discovery Communications, Sony Pictures Television and Jeff Arnold; a board member of Adrea, LLC, a private joint venture between Discovery Communications, Intertrust, Philips and Sony aimed at licensing certain intellectual property in the eBook space; and an Advisory Board member of the GI Film Festival. Mr. Rosenstock was designated by Discovery Communications in connection with the January 1, 2011, resignation of their previous designee Michael Cascone as a director of HSW International.

*Gregory M. Swayne*, age 52, has served as a member of HSWI's Board of Directors since December 2009. Mr. Swayne has been HSW International's Chairman of the Board since December 2009 and Chief Executive Officer since September 2009. Previously, he was our President and Chief Operating Officer since October 2007. Prior to joining HSW International in 2006, Mr. Swayne led HowStuffWorks, Inc., which has since been acquired by Discovery Communications, as President and Chief Operating Officer and was a member of the management teams of The Convex Group and N2 Broadband. Mr. Swayne was the co-founder and President of publicly-listed A.D.A.M., Inc. and its predecessor Medical Legal Illustrations, Inc. A.D.A.M. provides health information services and benefit management solutions through its online offerings to healthcare organizations, employers, benefit brokers, consumers and the educational market. Mr. Swayne holds a Bachelor of Arts from the University of South Carolina and a Master of Science in Medical Illustration from the Medical College of Georgia. Among other experience, qualifications, attributes and skills, as our Chief Executive Officer since September 2009 and our President and Chief Operating Officer from 2007 to 2009, Mr. Swayne's unique experience and perspective on our business led to the conclusion of our Nominating and Corporate Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

*Kai-Shing Tao*, age 34, has served as a member of HSWI's Board of Directors since 2007. He is also Chairman and Chief Investment Officer of Pacific Star Capital, a private investment group. Prior to founding Pacific Star Capital, Mr. Tao was a Partner at FALA Capital Group, a single family investment office, where he headed the global liquid investments outside the operating companies. Mr. Tao is also a member of the Real Estate Roundtable and US-China and US-Taiwan Business Council. Mr. Tao graduated from the New York University Stern School of Business. Among other experience, qualifications, attributes and skills, Mr. Tao's knowledge and experience in the investment industry and Asian market led to the conclusion of our Nominating and Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

## EXECUTIVE OFFICERS AND KEY EMPLOYEES

The following table sets certain information about each of our executive officers and key employees as of March 28, 2011.

Name	Age	Position
Gregory M. Swayne	52	Chief Executive Officer and Chairman of the Board of Directors
Shawn G. Meredith	41	Chief Financial Officer
Eric J. Orme	36	Chief Technology Officer
Bradley T. Zimmer	32	Executive Vice President and General Counsel

### Executive Officers

**Gregory M. Swayne** is our Chief Executive Officer and Chairman of the Board of Directors. Previously, he was our President and Chief Operating Officer since October 2007. Prior to joining HSW International in 2006, Mr. Swayne was the President and Chief Operating Officer of HowStuffWorks, Inc., which has since been acquired by Discovery Communications, and was a member of the management teams of The Convex Group and N2 Broadband. Mr. Swayne was the co-founder and President of publicly-listed A.D.A.M., Inc. and its predecessor Medical Legal Illustrations, Inc. A.D.A.M. provides health information services and benefit management solutions through its online offerings to healthcare organizations, employers, benefit brokers, consumers and the educational market. Mr. Swayne holds a Bachelor of Arts from the University of South Carolina and a Master of Science in Medical Illustration from the Medical College of Georgia.

**Shawn G. Meredith** became our Chief Financial Officer on August 12, 2008. Ms. Meredith joined us in May 2008 as Vice President of Finance. Prior to joining HSW International, she was a consultant to and Corporate Controller for Network Communications, Inc., an internet-integrated media company and the largest national publisher of local printed and online magazines for the real estate market, from September 2005 to April 2008. Ms. Meredith also held positions as vice president, finance and accounting for Medical Doctor Associates, from October 2004 to August 2005, and as an audit manager for PricewaterhouseCoopers LLP, from October 2001 to September 2004. Ms. Meredith graduated from the University of Florida with a Bachelor of Science in Accounting and a Master of Accounting from Florida International University. Ms. Meredith is a certified public accountant.

### Other Key Employees

**Eric J. Orme** has been our Chief Technology Officer since November 2007, was previously Director of IT and Operations at PCDI, LLC, since May 2004, and has been involved in information technology leadership in the web hosting, education technology, and online media markets for the past fifteen years. His technical background includes work for both start-ups and larger global corporations, including Georgia-Pacific, web.com, and Ashworth University. Mr. Orme has been central in orchestrating the launch of the Company's websites in China and Brazil.

**Bradley T. Zimmer** has been Executive Vice President, General Counsel and Corporate Secretary for HSW International since December 2007. He previously served as General Counsel and Corporate Secretary of The Convex Group, an entertainment and media company, and its subsidiary HowStuffWorks, Inc. from 2003 through the companies' acquisition by Discovery Communications in December 2007. Prior to The Convex Group, Mr. Zimmer was responsible for business strategy at Southeast Interactive Technology Funds, a venture capital firm focused on information technology and communications investments. Mr. Zimmer holds a Bachelor of Arts in Public Policy and Juris Doctor from Duke University. He is a member of the American Bar Association and North Carolina State Bar, and is a member of the boards of directors of Forbes Travel Guide and several other privately held companies.

## CORPORATE GOVERNANCE MATTERS

### Audit Committee

The Audit Committee of our Board of Directors is responsible for overseeing the qualifications, performance and independence of our independent auditors, the integrity of our financial statements and disclosures, the performance of our internal audit function and internal controls, and compliance with legal and regulatory requirements. The Audit Committee currently consists of Theodore P. Botts (Chairman), Kai-Shing Tao and Scott Booth, all of whom are independent directors as defined in Rule 4200(a)(14) of the NASDAQ listing standards and Rule 10A(m)(3) of the Exchange Act. The Board has determined that Mr. Botts qualifies as an "audit committee financial expert" as defined in Item 407(d) of Regulation S-K promulgated by the SEC.

### Selection of Nominees for the Board of Directors

The Nominating Committee of our Board of Directors is responsible for establishing the procedures for our stockholders to nominate candidates to the Board of Directors. There were no material changes in 2010 to the procedures by which security holders may recommend nominees to our Board of Directors.

### Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that is designed to promote high standards of ethical conduct by our directors and employees. The Code requires that our directors and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner, and otherwise act with integrity and in HSWI's best interest. It includes a code of ethics for our chief executive officer, chief financial officer, chief accounting officer or controller, and persons performing similar functions.

As a mechanism to encourage compliance with the Code of Business Conduct and the Code of Ethics, we have established procedures to receive, retain, and address complaints received regarding accounting or auditing matters. These procedures ensure that individuals may submit concerns regarding questionable accounting or auditing matters in a confidential and anonymous manner.

In addition, the Board of Directors routinely reviews its own performance to ensure that the Board is acting in the best interests of HSWI and its stockholders.

Our Code of Business Conduct and Ethics is available for review under the Corporate Governance section on our website at [www.hswinternational.com](http://www.hswinternational.com).

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the Securities and Exchange Commission and NASDAQ. Officers, directors and 10% stockholders are also required by SEC rules to furnish us with copies of all such forms that they file. Based solely on a review of the copies of forms received by HSWI, or written representations from reporting persons, we believe that during 2010, all of our officers, directors and 10% stockholders complied with applicable Section 16(a) filing requirements other than Scott Booth, who did not file a Form 3 upon becoming a director in December 2009 or Forms 4 for the grant of 2,000 shares of restricted stock on June 15, 2010 or the grant of 4,000 shares of restricted stock on February 2, 2011.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Introduction

The Compensation Committee of the Board of Directors approves all compensation and awards to the individuals included on the Summary Compensation Table (the "named executive officers"). Annually, the Compensation Committee reviews the performance and compensation of the chief executive officer, or CEO, and, following discussions with the CEO and, where it deems appropriate, other advisors, modifies executives' compensation levels for the subsequent year. For the remaining named executive officers, the CEO makes recommendations to the Compensation Committee for approval.

The Compensation Committee met six times in 2010. The Compensation Committee's charter provides that it will (i) develop, approve, and report to the Board regarding the Company's overall compensation philosophy and strategy, (ii) establish corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and determine and approve the CEO's compensation level based on this evaluation, (iii) review and approve the compensation structure for the other executive officers and review and approve the CEO's recommendations with respect to executive officer compensation, (iv) oversee CEO and executive succession planning and development, and (v) make recommendations to the Board with respect to director compensation. In addition to the committee members, in the past the CEO and other officers from the Company have been asked to attend meetings from time to time as the committee deems appropriate. The Compensation Committee makes reports to the full Board of Directors based on its activities and, for certain activities, such as the determination of Board of Directors compensation, the Compensation Committee will make recommendations to the full Board for approval.

#### Executive Compensation Philosophy and Objectives

We work to attract and retain proven, talented executives who we believe will help to put us in the best position for growth and to meet our Company's objectives. We attempt to recruit executives with technology, internet, media or other experience that we believe is transferable to our business with the expectation that they will share their knowledge to create and develop a successful organization. We strive to provide our named executive officers with a compensation package that is competitive for a given position in our industry and geographic region. The purpose of our executive compensation program is to provide incentives for our executives to meet or exceed expectations. We believe our compensation objectives are achieved through a combination of base salary, incentive bonus, equity compensation and other benefits. With the exception of equity, or stock-based compensation, the compensation is paid in cash.

Our stock-based compensation provides a means for our executives to obtain a degree of ownership of our Company in an attempt to align corporate and individual goals. The issuance of equity compensation is generally not based on performance but rather a component of each officer's total compensation package. As bonuses are based on both individual and company-wide performance and objectives, we offer a market-competitive base salary for executive positions so as to mitigate the volatility we might experience in our equity pricing. It is our philosophy that bonuses are to be used to provide an added incentive to meet additional objectives which exceed ordinary expectations and not as salary itself.

#### Elements of Compensation

During 2010, the compensation packages for our named executive officers included three principal elements: base salary; performance based (or guaranteed) cash bonuses; and long-term equity incentive awards.

**Base Salary.** Base salary for our executives is determined based on the specific level and experience of the executive and responsibilities of his or her position. Generally, the goal is to achieve a salary that is competitive with the salary for similar positions in similar industries within our Company's geographic region. The Compensation Committee reviews salaries during its annual review process when an increase, if any, is determined. Any increase in salary for the named executive officers is subject to Compensation Committee approval. In addition, base salaries may be adjusted, on occasion at the Compensation Committee's discretion, to realign a particular salary with current market conditions. Upon Mr. Swayne's becoming our CEO in September 2009,



we entered into a Letter Agreement with Mr. Swayne with a term of three years. Under that agreement, Mr. Swayne's initial base salary was \$275,000 per year, increased to \$300,000 per year effective January 1, 2010, and will be reviewed annually beginning in 2011 by the Board for any discretionary merit-based increases.

**Long-term Equity Incentive Awards.** Granting stock options encourages our executives to focus on our Company's future success. The Company issues grants for stock options under the 2010 Equity Incentive Plan adopted June 15, 2010. The number of grants recipients receive is generally based on their particular position within the Company. All grants require the approval of the Compensation Committee of our Board. In the event of a change in control in HSW International, any unvested options held by each of our named executive officers will fully vest on the date of the change of control. Under the terms of the Letter Agreement, Mr. Swayne received options to purchase 41,000 shares of HSW International's common stock. Five thousand of the options vested immediately upon the grant, and the remainder will vest ratably over a period of three years. All options vest automatically upon a change of control, as defined in the Letter Agreement.

#### Payments in Connection with a Change of Control or Termination

In the event of a change in control in HSW International, any unvested options held by each of Messrs. Swayne, and Orme and Ms. Meredith will fully vest on the date of the change of control. If a change of control had occurred on December 31, 2010, the value of the options that would have vested was \$919,000.

If HSW International terminates Mr. Swayne's employment without cause (as defined in the Letter Agreement) and Mr. Swayne executes a release acceptable to HSW International, Mr. Swayne will be entitled to amounts earned or vested as of his termination date, plus his base salary in effect as of his termination date and continuing medical benefits for a period of (a) nine months if he is terminated between October 1, 2010 and September 30, 2011, or (b) six months if he is terminated between October 1, 2011 and the end of the term of the employment agreement. If Mr. Swayne had been terminated on December 31, 2010, the value of his severance payments would have been \$225,000.

#### Summary Compensation Table

The following table sets forth information concerning the compensation awarded to, earned by, or paid for services rendered to us and our subsidiaries in all capacities during the years ended December 31, 2009, and December 31, 2010, by our principal executive officer, and our two most highly compensated executive officers other than the principal executive officer who were serving as executive officers at the end of the last completed fiscal year. The officers listed on the table set forth below are referred to collectively in this annual report as the named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Equity Awards (1) (\$)	All Other Compensation (\$)	Total (\$)
Gregory M. Swayne						
<i>Chairman and Chief Executive Officer (2)</i>	2010	\$ 300,000	\$ —	\$ 356,400	\$ —	\$ 656,400
	2009	\$ 238,786	\$ —	\$ 151,700	\$ —	\$ 390,486
Shawn G. Meredith						
<i>Chief Financial Officer</i>	2010	\$ 200,059	\$ —	\$ —	\$ —	\$ 200,059
	2009	\$ 200,236	\$ —	\$ 83,250	\$ —	\$ 283,486
Eric J. Orme						
<i>Chief Technology Officer</i>	2010	\$ 250,000	\$ —	\$ 356,400	\$ —	\$ 606,400
	2009	\$ 194,663	\$ —	\$ 83,250	\$ —	\$ 277,913

(1) Amounts in this table reflect the total grant date fair value for awards granted in 2010 and 2009 and do not reflect actual compensation realized by our named executive officers. The aggregate grant date fair value of restricted stock and options awards granted within the fiscal year was determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 for stock-based compensation.

(2) Mr. Swayne became our Chief Executive Officer on September 28, 2009.

### Outstanding Equity Awards at Year-End 2010

The following table provides information about the number and value of unexercised options for the named executive officers as of December 31, 2010. No named executive officers exercised any stock options during fiscal years 2010 or 2009 and no stock appreciation rights have been granted.

Name	Number of Securities Underlying Unexercised Options		Options Exercise Price (\$)	Option Expiration Date
	Exercisable (#)	Unexercisable (#)		
Gregory M. Swayne	10,000	0	\$ 65.00	August 23, 2016
Gregory M. Swayne	10,000	0	\$ 71.00	October 10, 2017
Gregory M. Swayne	1,002	0	\$ 32.50	August 12, 2018
Gregory M. Swayne	20,000	21,000	\$ 3.90	November 5, 2019
Gregory M. Swayne	0	60,000	\$ 6.06	September 17, 2020
Shawn G. Meredith	1,667	833	\$ 38.00	May 28, 2018
Shawn G. Meredith	1,667	833	\$ 32.50	August 12, 2018
Shawn G. Meredith	334	0	\$ 32.50	August 12, 2018
Shawn G. Meredith	9,167	13,333	\$ 3.85	November 20, 2019
Eric J. Orme	2,500	0	\$ 70.30	November 9, 2017
Eric J. Orme	334	0	\$ 32.50	August 12, 2018
Eric J. Orme	12,221	10,729	\$ 3.90	November 5, 2019
Eric J. Orme	0	60,000	\$ 6.06	September 17, 2020

## Consulting and Employment Agreements

### *Swayne Employment Agreement*

Mr. Swayne's employment is governed by a Letter Agreement dated September 28, 2009, with a term of three years. Mr. Swayne's initial base salary was \$275,000 per year, increased to \$300,000 per year effective January 1, 2010, and will be reviewed annually beginning in 2011 by the Board for any discretionary merit-based increases. In November 2009 Mr. Swayne received options to purchase 41,000 shares of HSW International's common stock. Five thousand of the options vested immediately upon the grant, and the remainder will vest ratably over a period of three years. All options vest automatically upon a change of control, as defined in the Letter Agreement. The Letter Agreement also contains non-compete and non-solicitation covenants. If HSW International terminates Mr. Swayne's employment without cause (as defined in the Letter Agreement) and Mr. Swayne executes a release acceptable to HSW International, Mr. Swayne will be entitled to amounts earned or vested as of his termination date, plus his base salary in effect as of his termination date and continuing medical benefits for a period of (a) nine months if he is terminated between October 1, 2010 and September 30, 2011, or (b) six months if he is terminated between October 1, 2011 and the end of the term of the employment agreement.

### *Orme Employment Agreement*

Mr. Orme's employment is governed by a Letter Agreement dated October 1, 2009, with a term of three years. Mr. Orme's initial base salary was \$225,000 per year and increased to \$250,000 per year effective January 1, 2010, and will be reviewed annually thereafter by the Board for any discretionary merit-based increases. In 2009 Mr. Orme received options to purchase 22,500 shares of HSW International's common stock. Two thousand five hundred of the options vested immediately upon the grant, and the remainder vest ratably on a monthly basis over a period of three years. All options vest automatically upon a change of control, as defined in the Letter Agreement. The Letter Agreement also contains non-compete and non-solicitation covenants. HSW International may terminate Mr. Orme's employment on thirty days' written notice, provided that the Company may provide continued base salary payments and medical benefits for all or a portion of the 30 day notice period in lieu of the notice. Upon expiration of the term, the Letter Agreement will terminate, and, unless either party elects in writing not to continue Mr. Orme's employment, he will become an at-will employee of the Company. If HSW International terminates Mr. Orme's employment without cause (as defined in the Letter Agreement) and Mr. Orme executes a release acceptable to HSW International, Mr. Orme will be entitled to amounts earned or vested as of his termination date, plus his base salary in effect as of his termination date and continuing medical benefits for a period of (a) nine months if he is terminated between October 1, 2010 and September 30, 2011, or (b) six months if he is terminated between October 1, 2011 and the end of the term of the employment agreement.

## Compensation of Non-Executive Directors

Our certificate of incorporation and bylaws specifically grant to our board of directors the authority to fix the compensation of the directors. For 2010 service, we paid our non-executive directors the amounts set forth in the following table:

Name (1)	Fees Earned or Paid in Cash (2) (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (3) (\$)
Jeffrey T. Arnold (3)	—	—	—	—	—
Scott V. Booth (1)	\$ 48,944	\$ 4,200	—	—	\$ 53,144
Theodore P. Botts	\$ 48,944	\$ 4,200	—	—	\$ 53,144
Michael Cascone (1), (3)	—	—	—	—	—
Boland T. Jones (4)	\$ 19,472	—	—	—	\$ 19,472
Arthur F. Kingsbury	\$ 48,944	\$ 4,200	—	—	\$ 53,144
Kai-Shing Tao	\$ 43,944	\$ 2,310	—	—	\$ 46,254

- (1) Our shareholders elected Messrs. Booth and Cascone to the Board on December 17, 2009 and elected Mr. Rosenstock on February 3, 2011.
- (2) Includes annual retainers for members of the Board of Directors, retainers for the chairman of each of the Audit, Compensation and Nominating Committees, and retainers for the members of the Special Committee established to review the Sharecare transactions.
- (3) Bruce L. Campbell, Michael Cascone, and Jeffrey T. Arnold received no compensation as directors because they are employed by Discovery, which owns approximately 43% of our shares. Mr. Arnold received all of his compensation pursuant to his Consulting Agreement, described below.
- (4) Mr. Jones did not stand for reelection at our 2010 annual meeting and ceased to be a director on June 15, 2010.

On February 3, 2010, our board of directors adopted a Director Compensation Plan for the year ended December 31, 2010, for its independent directors. The plan provides for the following:

Annual minimum cash retainer	\$	5,000
Annual restricted stock grant value	\$	35,000
Total annual compensation	\$	40,000

In addition, the chairman of our Compensation and Nominating and Governance Committees each receives additional cash compensation of \$2,500 per year, and the chairman of our Audit Committee receives additional compensation of \$5,000 per year. The restricted stock grant is limited to the per share price for 2,000 shares. The excess value is then added to the cash retainer. We also reimburse all directors for HSWI-related travel expenses in accordance with our Company-wide policy.

The terms for the payment of our independent director compensation include the following:

- Cash retainers are paid quarterly in arrears.
- Restricted stock is granted at the beginning of the year in an amount then equal to the specified cash value determined as the average of the first 15 trading days of the year, resulting in a per share value for our 2009 grant of \$3.50.
- The number of restricted stock shares granted is calculated by dividing \$35,000 by the volume weighted average trading price of the Company's common stock for the first fifteen trading days of 2009 (the "Per-Share Price"). If the resulting quotient exceeds 2,000 shares, the value (calculated using the Per-Share Price) of the shares in excess shall be added to the annual cash retainer.
- Restricted stock vests in full on December 31 of the year of grant, contingent upon the recipient having attended at least 75% of board meetings held during the year; otherwise, vesting will be prorated based on attendance.

On June 15, 2010, our independent directors, namely Messrs. Booth, Botts, Kingsbury and Tao, each received 2,000 shares of restricted stock per the director compensation plan described above.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth certain information regarding the beneficial ownership of our common stock as of March 28, 2011 for the following:

- Each person or entity known to own beneficially more than 5% of the outstanding common stock;
- Each director;
- Each of the executive officers named in the Summary Compensation table; and,
- All current executive officers and directors as a group.

Applicable percentage ownership is based on 5,424,455 shares of common stock outstanding as of March 28, 2011, together with applicable options for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC, based on factors including voting and investment power with respect to shares. Common stock subject to options and warrants currently exercisable, or exercisable within 60 days after March 28, 2011, are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options, but are not deemed outstanding for computing the percentage ownership of any other person. The address of each executive officer and director is c/o HSW International, Inc., 3280 Peachtree Road, Suite 600, Atlanta, Georgia 30305. For information relating to beneficial owners of greater than 5% of our common stock who are not insiders, we rely upon the reports filed by such persons or entities on Schedule 13G. The beneficial ownership table is presented on a post-reverse stock split basis.

<b>Name of Beneficial Owners</b>	<b>Number of Shares Beneficially Owned</b>	<b>Percentage of Ownership</b>
<b>Discovery Communications, Inc. (1)</b> One Discovery Place Silver Spring, Maryland 20814	2,354,072	43.8%
<b>Eastern Advisors Capital Group, Ltd. (2)</b> c/o Caledonian Fund Services (Cayman) Limited Caledonian House 69 Dr. Roy's Drive Grand Cayman KY1 – 1102 Cayman Islands	821,540	15.3%
<b>Capital Research Global Investors (3)</b> 333 South Hope Street Los Angeles, California 90071	368,638	6.9%

Name of Beneficial Owners	Number of Shares Beneficially Owned	Percentage of Ownership
<b>Executive Officers and Current Directors:</b>		
Jeffrey T. Arnold (4)	2,710,072	47.3%
Scott V. Booth (5)	867,599	16.2%
Theodore P. Botts (6)	12,827	*
Arthur F. Kingsbury	2,827	*
Shawn G. Meredith (7)	8,769	*
Eric J. Orme (8)	9,048	*
Gregory M. Swayne (9)	35,310	*
Kai-Shing Tao	1,969	*
<b>All Executive Officers and Directors as a Group (9 People)</b>	<b>3,701,986</b>	<b>63.3%</b>

\* Represents less than 1%

- (1) Includes 2,344,072 shares of our common stock and 10,000 exercisable warrants beneficially owned by HowStuffWorks, Inc.
- (2) Based on information contained in Schedule 13G/A filed with the SEC on February 16, 2010, by Eastern Advisors Capital Group, LLC, Eastern Advisors Capital, Ltd. and Scott Booth. All three report shared voting and dispositive power over the shares. The address for Eastern Advisors Capital Group, LLC and Scott Booth is 101 Park Avenue, 48th floor, New York, New York 10178.
- (3) Based on information contained in Schedule 13G/A filed with the SEC in February 11, 2011 by Capital Research Global Investors. The address is 333 South Hope Street, Los Angeles, California, 90071.
- (4) Includes (i) 2,344,072 shares of our common stock and 10,000 exercisable warrants beneficially owned by HowStuffWorks, Inc., over which Mr. Arnold could be deemed to have voting and dispositive power in his capacity as Chief of Global Digital Strategy of HowStuffWorks' parent company Discovery Communications, Inc., (ii) 355,000 shares of our common stock that may be acquired upon the exercise of options and (iii) 1,000 shares owned directly by Mr. Arnold.
- (5) Includes 821,540 shares of our common stock beneficially owned by Eastern Advisors Capital Group, Ltd., over which Mr. Booth could be deemed to have voting and dispositive power in his capacity as Managing Partner of Eastern Advisors Capital Group.
- (6) Includes 10,000 shares of our common stock that may be acquired upon the exercise of options and 2,827 shares owned by Mr. Botts.
- (7) Includes 8,667 shares of our common stock that may be acquired upon the exercise of options and 102 shares owned by Ms. Meredith.
- (8) Includes 8,946 shares of our common stock that may be acquired upon the exercise of options and 102 shares owned by Mr. Orme.
- (9) Includes 35,002 shares of our common stock that may be acquired upon the exercise of options and 308 shares owned by Mr. Swayne.

## Equity Compensation Plans

The following table sets forth the indicated information as of December 31, 2010 with respect to our equity compensation plans:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by our shareholders	971,679	\$ 43.73	120,318
Equity compensation plans not approved by our shareholders	—	—	—
<b>Total</b>	<b>971,679</b>	<b>\$ 43.73</b>	<b>120,318</b>

Our equity compensation plan consists of the 2010 Equity Plan and 2006 Equity Incentive Plan, both of which were approved by our stockholders. We do not have any equity compensation plans or arrangements that have not been approved by our stockholders.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Director Independence

Our Board of Directors is currently composed of six directors, four of whom our Board has determined to be independent within the meaning of the Nasdaq Marketplace Rules. These four directors are Messrs. Booth, Botts, Kingsbury and Tao. As part of such determination of independence, our Board has affirmatively determined that none of these directors have any relationship with HSWI that would interfere with the exercise of independent judgment in carrying out their responsibilities as directors.

### Related Party Transactions

Our policy regarding transactions with our officers, directors, principal shareholders and their affiliates is that they may be made on terms no less favorable to us than could have been obtained from unaffiliated third parties. All transactions between us and our officers, directors, principal stockholders and their affiliates must be approved by our Audit Committee or a majority of the disinterested directors, and must continue to be on terms no less favorable to us than could be obtained from unaffiliated third parties.

### Contribution Agreements

Pursuant to the terms of two contribution agreements, HowStuffWorks contributed content owned by or licensed to HowStuffWorks to us by granting to us a perpetual, fully paid, royalty-free, sublicensable, exclusive license in certain territories. The content specifically consists of the right to render Chinese and Portuguese translations of, the right to publish or use any or all actual renderings in the translated languages and all such actual renderings of, such licensed and sublicensed content, including derivative works, solely in digital and/or electronic form. All sublicensed content is subject to the terms, conditions and restrictions set forth in the applicable third party licenses from which the sublicensed content is sublicensed. HowStuffWorks is the sole and exclusive owner of the licensed content, the applicable third party licensors are the sole and exclusive owners of the applicable sublicensed content and we are the sole and exclusive owner of the content, subject to HowStuffWorks and its licensors' rights in the underlying content.

HowStuffWorks also granted to us a limited, perpetual, fully paid, royalty-free, non-sublicensable, non-transferable, exclusive license in the territories to (i) use the content solely for purposes of translating it into the translation languages, and (ii) use limited excerpts of the licensed content translated into the translation languages in print format with limited distribution to businesses solely for purposes of marketing, business development, financings and other similar legitimate business purposes, provided that any such limited print excerpts are not distributed publicly.

HowStuffWorks may terminate the licenses in either of the territories upon written notice to us if: (i) we file a petition for bankruptcy or are adjudicated bankrupt; (ii) a petition in bankruptcy is filed against us and this petition is not dismissed within ninety calendar days; (iii) we become insolvent or make an assignment for the benefit of our creditors or an arrangement for our creditors pursuant to any bankruptcy law; (iv) we discontinue the business that is covered by either of the contribution agreements; (v) a receiver is appointed for us or our business; or (vi) we are in material breach of any of the terms or conditions set forth in either of the contribution agreements, which breach remains uncured 30 days after written notice of such breach from HowStuffWorks so long as such material breach was not caused by any action or inaction of HowStuffWorks, and HowStuffWorks did not prevent or limit our attempts to cure such breach.

### Update Agreement

Pursuant to the terms of an update agreement, HowStuffWorks will provide all updates (i.e., modifications and new content) to us for our purchase. With respect to updated content that we elect to purchase, HowStuffWorks will grant to us the same license rights as those granted pursuant to the contribution agreements with respect to any updates to the content licensed pursuant to the contribution agreement for a fee equal to (i) one percent per territory of HowStuffWorks' fully allocated costs directly attributable to producing the updates purchased by us and (ii) HowStuffWorks' actual cost in transferring the purchased updates to us, plus (iii) five percent of (i) and (ii) above. Sublicensed content restrictions, ownership rights and termination rights are the same as those granted pursuant to



the contribution agreements. HowStuffWorks may suspend its obligation to provide updates to us if we fail to pay any update fee for 90 days after such fee was due or if we become insolvent.

#### **Stockholders Agreement**

*Corporate Governance.* HSW International and HowStuffWorks have entered into a First Amendment to Amended and Restated Stockholders Agreement. HowStuffWorks has the right to designate three directors of HSW International (one of whom shall be an independent director), and HowStuffWorks has the right to designate the chairperson of the Nominating and Governance Committee. All shares of HSW International owned by HowStuffWorks in excess of 45% of the outstanding shares of HSW International as of any applicable record date, if any, shall be voted in exact proportion to the vote of HSW International stockholders other than HowStuffWorks. HowStuffWorks will have the right to vote in its discretion its shares up to and including 45% of the outstanding shares as of any applicable record date. The HowStuffWorks-designated members are Scott Booth, James Rosenstock and Arthur Kingsbury.

*Additional Content.* If we acquire any rights in any text, images, designs, graphics, artwork or other content (referred to in this Annual Report on Form 10-K as the additional content), we will use commercially reasonable efforts to obtain, as a part of such acquisition, (i) the worldwide digital publishing rights to such additional content and (ii) digital publishing rights for HowStuffWorks in respect of such additional content for use outside the territories ((i) and (ii), referred to as the additional rights). Notwithstanding the foregoing, we will not be required to pay or be obligated to incur additional fees or costs for additional rights obtained for HowStuffWorks unless HowStuffWorks agrees to bear such additional fees and/or costs.

*Non-Competition.* We agree that, during the term of the stockholders agreement, we will not, and will use our best efforts to cause each of our subsidiaries to not, within the United States, (a) enter into any agreement with, hold any equity or financial interest in, or permit our name or any part thereof to be associated in business with, any person that provides any services or products that compete with any services or products of HowStuffWorks in the United States, or (b) otherwise provide any services or products that compete with any services or products of HowStuffWorks in the United States, except with the prior written consent of HowStuffWorks.

*Termination.* The stockholders agreement may be terminated by written agreement of all parties with rights under the stockholders agreement, or upon the expiration of (i) all rights created pursuant to the stockholders agreement and (ii) all applicable statutes of limitations applicable to the enforcement of claims under the stockholders agreement, except that our right to participate in other markets transactions and HowStuffWorks' rights to any additional content will terminate three years after the date of the stockholders agreement. The rights of HowStuffWorks pursuant to the provisions regarding transfer restrictions and corporate governance will terminate on the date HowStuffWorks beneficially owns less than 10% of our common stock on a fully diluted basis. The transfer restrictions will terminate upon a change of control of us or a sale of all or substantially all of our assets.

#### **Registration Rights Agreements**

In connection with the INTAC merger, we also entered into a registration rights agreement with HowStuffWorks that provides it the right to make three requests to us to register its shares on Form S-3, and unlimited requests to us to include shares on other registration statements filed by us.

#### **Sharecare Transactions**

On October 30, 2009, we entered into and effectuated a series of transactions with Sharecare, Inc. As a result of these transactions, HSWI received an equity stake in Sharecare, sold substantially all of the assets of its Daily Strength subsidiary to Sharecare, agreed to provide management and website development services to Sharecare, and received a limited license to use the Sharecare Web platform for its own businesses. Additionally, HSWI issued a promissory note to Sharecare, the majority of which was offset by services HSWI provided to Sharecare. Finally, Sharecare assumed certain Daily Strength liabilities, including the earn-out payment of up to \$3.525 million under the merger agreement by which HSWI acquired Daily Strength.

Jeffrey T. Arnold, a former member of our Board of Directors, is the Chairman and Chief Architect and a significant stockholder of Sharecare. Additionally, Mr. Arnold is Chief of Global Digital Strategy for Discovery Communications, which is a significant stockholder of Sharecare, and Chairman Emeritus for its subsidiary HowStuffWorks, which is our largest stockholder. The transactions did not require HSWI stockholder approval, and HSWI stockholders do not have any statutory appraisal or dissenters' rights with respect to the transaction. HSWI's Board of Directors established a Special Committee, consisting of three independent directors without any interests in Sharecare, to evaluate and recommend the terms of these transactions to the Board, and the committee retained Hudson Advisory Partners, Inc. as its financial advisor with respect to the transactions, which engagement was subsequently assigned to Ackrell Capital LLC as was contemplated in the engagement letter. All terms recommended by the Special Committee were unanimously approved by the Board, with Mr. Arnold and Bruce Campbell, President of Digital Media and Business Development for Discovery Communications, abstaining from voting. Mr. James Rosenstock subsequently joined our Board in February 2011. Mr. Rosenstock is an officer of Discovery and a director of Sharecare.

As a part of these transactions, we entered into and effectuated an Asset Purchase Agreement under which we sold substantially all of the assets of our subsidiary Daily Strength, Inc. to a wholly owned subsidiary of Sharecare, in exchange for which that subsidiary assumed liabilities of Daily Strength, including the potential earn-out payments under the Merger Agreement dated November 26, 2008, pursuant to which we acquired Daily Strength. Sharecare additionally agreed to reimburse HSWI for the net operating costs incurred by Daily Strength between October 3 and October 31, 2009, the closing date. HSWI and Daily Strength agreed in the asset purchase agreement to indemnify Sharecare for a breach of any representation, warranty or covenant contained in the purchase agreement and related transaction documents, and other losses and expenses arising out of the asset purchase agreement, if any. Sharecare agreed to indemnify HSWI for any claims or liabilities arising out of the assumed liabilities and for a breach of any representation, warranty or covenant contained in the purchase agreement or related transaction documents.

We also entered into a Subscription Agreement for the purchase of 125,000 shares of common stock of Sharecare, representing 20% of the company at the time of purchase. The aggregate purchase price for the shares was \$1,250,000. In exchange for the shares, HSWI contributed \$250,000 worth of development work to Sharecare and issued a Secured Promissory Note to Sharecare in the principal amount of \$1,000,000, which has since been satisfied in full by services the Company provided to Sharecare in 2009. The note did not bear interest. For so long as principal amounts remained outstanding under the note, all amounts payable by Sharecare to HSWI pursuant to the Services Agreement, described below, were applied as prepayments on the note. As collateral for the payment of the note, HSWI granted Sharecare a security interest in all of its equity securities of Sharecare purchased by HSWI pursuant to the Subscription Agreement. Subsequent issuances of equity by Sharecare have reduced HSWI ownership percentage in Sharecare to approximately 16.5%.

On November 17, 2010, Sharecare completed a sale of its equity securities to its founding stockholders. Rather than purchase its pro rata share of equity securities offered in the financing, HSWI purchased an option to purchase at a later date its pro rata share of Sharecare's equity securities. HSWI purchased the option for a percentage of the purchase price of its pro rata share of equity securities offered in the financing. The option expires on July 30, 2011, and may be exercised in whole (but not in part) at any time prior to that date by payment of the aggregate exercise price of the equity shares to be purchased.

In addition, we entered into a Letter Agreement for Services with Sharecare pursuant to which we agreed to perform services related to the design, development, hosting and related services necessary to launch and operate the Sharecare website through our direct activities and management of third party vendors. Sharecare will pay HSWI for the fully burdened cost of HSWI personnel dedicated to the services and other costs incurred in providing the services plus a fixed monthly management fee. Sharecare paid HSWI for services performed since July 1, 2009. The initial term of the agreement expired on December 31, 2009; on January 26, 2011, we entered into the Third Amendment to the Letter Agreement for Services to extend the term of the agreement to December 31, 2011. Except as amended by the Third Amendment, all provisions of the original agreement, the First Amendment and the Second Amendment remain in full force and effect.

Finally, we entered into a License Agreement with Sharecare and each of ZoCo 1, LLC, Discovery SC Investment, Inc., Oz Works, L.L.C., and Arnold Media Group, LLC pursuant to which Sharecare granted each of the other parties to the agreement a perpetual, fully paid, royalty-free, worldwide, non-transferable, non-exclusive quitclaim license to software, programs, business processes and methodologies developed and owned by Sharecare and deployed into production as the technical platform for the Sharecare website, but expressly excluding the "look and feel" elements of the Sharecare website. The license includes the right to modify and adapt the technology to create derivative works and to use and combine the technology with other products and material. No more than twice every six months for five years, each licensee may request from Sharecare, and Sharecare will provide and grant a license to the licensee, all then-existing derivative works of the technology Sharecare has developed. The licensees may not use the licensed technology in or for the benefit of a business involved in the creation, aggregation, archiving, hosting or distribution of health and wellness information and content. Sharecare granted the license in return for contributions from each of the licensees of assets valuable to Sharecare in the development and launch of its business.

We described the material terms of these agreements in our Current Report on Form 8-K filed with the SEC on November 2, 2009, and filed copies of them with our Quarterly Report on Form 10-Q filed with the SEC on November 16, 2009.

In addition amendments to the agreements were disclosed in our Current Reports on Form 8-K filed on January 7, 2010, July 7, 2010 and January 31, 2011.

**Discovery Services Agreement**

In April 2010, HSWI entered into a services agreement with Discovery Communications, LLC. Discovery's subsidiary HowStuffWorks is our largest stockholder. The parties agreed that HSWI will provide consulting services to Discovery as described in a statement of work, and any additional statement of work as may be entered into between the parties, in accordance with the specifications, payment schedule and timetable set forth in each statement of work. As of March 1, 2011, the parties have entered into statements of work for an aggregate amount of approximately \$2.4 million.

The agreement continues for 12 months from the effective date of the agreement or until the expiration of the last statement of work, whichever is longer. Discovery may terminate the agreement without any further obligation to HSWI in the event of a force majeure which lasts for a period of ten (10) consecutive days or fifteen (15) days in aggregate during any six-month period.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

### Summary of Auditor Fees and Pre-Approval Policy

Our Audit Committee has adopted a policy for the pre-approval of all audit and permitted non-audit services that may be performed by our independent registered public accounting firm. Under this policy, each year, at the time it engages the auditors, the Audit Committee pre-approves the audit engagement terms and fees and may also pre-approve detailed types of audit-related and permitted tax services, subject to certain dollar limits, to be performed during the year. All other permitted non-audit services are required to be pre-approved by the Audit Committee on an engagement-by-engagement basis. All of the auditor fees for the last two years, as detailed below, were pre-approved by the Audit Committee or full Board. The Audit Committee may delegate its authority to pre-approve services to one or more of its members, whose activities are reported to the Audit Committee at each regularly scheduled meeting.

The following table summarizes the aggregate fees billed for professional services rendered to HSWI by PricewaterhouseCoopers LLP. A description of these various fees and services follows the table.

	<u>2010</u>	<u>2009</u>
Audit Fees	\$ 355,983	\$ 391,589
Audit-Related Fees	—	109,200
Tax Fees	—	—
All Other Fees	1,500	1,500
Total	<u>\$ 357,483</u>	<u>\$ 502,289</u>

### Audit Fees

The aggregate fees billed to us by PricewaterhouseCoopers LLP in connection with the annual audit, for the reviews of HSWI's financial statements included in the quarterly reports on Form 10-Q, and for other services normally provided in connection with statutory and regulatory filings, were approximately \$355,983 for 2010 and \$391,589 for 2009.

### Audit-Related Fees

Total fees billed to us by PricewaterhouseCoopers LLP in 2009 for audit related fees were \$109,200. These fees related to services provided related to the Sharecare transaction in 2009.

### Tax Fees

PricewaterhouseCoopers LLP did not provide tax related services for 2010 or 2009.

### All Other Fees

Other fees related to costs associated with an online accounting research tool obtained from PricewaterhouseCoopers LLP.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

## SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2010, and 2009:

**Schedule II**  
**HSW International, Inc.**  
**Valuation & Qualifying Accounts**

Classification	Balance at beginning of year	Additions charged to costs and expenses	Deductions	Balance at end of year
<b>Year ended December 31, 2010:</b>				
Allowance for doubtful accounts	\$ —	\$ —	\$ —	\$ —
Valuation allowance for deferred taxes	\$ 19,081,594	\$ 1,922,775	\$ 4,530	\$ 20,999,839
<b>Year ended December 31, 2009:</b>				
Allowance for doubtful accounts	\$ 15,343	\$ —	\$ 15,343	\$ —
Valuation allowance for deferred taxes	\$ 15,108,498	\$ 3,973,096	\$ —	\$ 19,081,594

All other schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, thereunto duly authorized this 29<sup>th</sup> day of March 2011.

**HSW INTERNATIONAL, INC.**

By: /s/ Gregory M. Swayne

**Gregory M. Swayne  
Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the 29th day of March 2011.

<u>Name</u>	<u>Title</u>
<u>/s/ Gregory M. Swayne</u> <b>Gregory M. Swayne</b>	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Shawn G. Meredith</u> <b>Shawn G. Meredith</b>	Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ Scott V. Booth</u> <b>Scott V. Booth</b>	Director
<u>/s/ Theodore P. Botts</u> <b>Theodore P. Botts</b>	Director
<u>/s/ Arthur F. Kingsbury</u> <b>Arthur F. Kingsbury</b>	Director
<u>/s/ James A. Rosenstock</u> <b>James A. Rosenstock</b>	Director
<u>/s/ Kai-Shing Tao</u> <b>Kai-Shing Tao</b>	Director

(b) Exhibits.

<b>Exhibit Number</b>	<b>Description of Document</b>	<b>Registrant's Form</b>	<b>Dated</b>	<b>Exhibit Number</b>	<b>Filed Herewith</b>
2.1	Agreement and Plan of Merger, dated as of April 20, 2006, among HowStuffWorks, Inc., HSW International, Inc., HSW International Merger Corporation and INTAC International, Inc.	S-4/A	07/10/07	Annex A	
2.2	First Amendment to Agreement and Plan of Merger, dated January 29, 2007, among HowStuffWorks, Inc., HSW International, Inc., HSW International Merger Corporation and INTAC International, Inc.	S-4/A	07/10/07	Annex B	
2.3	Second Amendment to Agreement and Plan of Merger, dated August 23, 2007, among HowStuffWorks, Inc., HSW International, Inc., HSW International Merger Corporation and INTAC International, Inc.	S-1/A	01/14/08	2.3	
2.4	Share Purchase Agreement among INTAC International, Inc., China Trend Holdings Ltd. and Wei Zhou, dated February 15, 2008	8-K	2/20/08	2.4	
2.5†	Agreement and Plan of Merger dated as of November 26, 2008, by and among HSW International, Inc., DS Newco, Inc., DailyStrength, Inc. and Douglas J. Hirsch	8-K	12/03/08	10.25	
2.6 (1)	Asset Purchase Agreement by and among HSW International, Inc., DailyStrength, Inc., DS Acquisition, Inc. and Sharecare, Inc., dated as of October 30, 2009	10-Q	11/16/09	10.28	
3.1	Amended and Restated Certificate of Incorporation of HSW International, Inc., as amended	10-K	4/15/10	3.1	
3.2	Second Amended and Restated Bylaws of HSW International, Inc.	8-K	12/18/07	3.2	
4.1	Specimen certificate of common stock of HSW International, Inc.	S-4/A	07/10/07	4.1	
4.2	HSW International 2006 Equity Incentive Plan	S-8	11/05/07	4.2	
4.3	Registration Rights Agreement among HSW International, Inc., HowStuffWorks, Inc. and Wei Zhou dated as of October 2, 2007	8-K	10/09/07	10.6	

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<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Registrant's Form</u>	<u>Dated</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
4.4	Registration Rights Agreement among HSW International, Inc. and American investors dated as of October 2, 2007	8-K	10/09/07	10.5	
4.5**	Affiliate Registration Rights Agreement dated as of October 2, 2007	8-K	10/09/07	10.7	
4.6	Common Stock Purchase Warrant dated March 4, 2011 issued to Theorem Capital LLC	8-K	3/10/11	4.6	
10.1	Amended and Restated Stockholders Agreement, dated as of January 29, 2007, among HowStuffWorks, Inc., HSW International, Inc. and Wei Zhou	S-4/A	07/10/07	Annex H	
10.2	First Amendment to Amended and Restated Stockholders Agreement, dated as of December 17, 2007, among HowStuffWorks, Inc., HSW International and Wei Zhou	S-1/A	01/14/08	10.2	
10.3	Contribution Agreement (PRC Territories) between HowStuffWorks, Inc. and HSW International, Inc., dated as of October 2, 2007	8-K	10/09/07	10.2	
10.4	Contribution Agreement (Brazil) between HowStuffWorks, Inc. and HSW International, Inc. dated as of October 2, 2007	8-K	10/09/07	10.1	
10.5	Update Agreement between HowStuffWorks, Inc. and HSW International, Inc. dated as of October 2, 2007	8-K	10/09/07	10.4	
10.6	Stock Purchase Agreement dated as of January 29, 2007 between HSW International, Inc. and Ashford Capital Management, Inc.	S-4/A	07/10/07	Annex I-a	
10.7	First Amendment to Stock Purchase Agreement dated as of August 23, 2007 between HSW International, Inc. and Ashford Capital Partners, L.P.	S-1/A	01/14/08	10.7	
10.8	Stock Purchase Agreement dated as of January 29, 2007 between HSW International, Inc. and Harvest 2004, LLC	S-4/A	07/10/07	Annex I-b	
10.9	First Amendment to Stock Purchase Agreement dated as of August 23, 2007 between HSW International, Inc. and Harvest 2004, LLC	S-1/A	01/14/08	10.9	
10.10	Stock Purchase Agreement dated as of January 29, 2007 between HSW International, Inc. and the Purchasers named therein	S-4/A	07/10/07	Annex I-c	
10.11	First Amendment to Stock Purchase Agreement dated as of August 23, 2007 between HSW International, Inc. and the Purchasers named therein	S-1/A	01/14/08	10.11	
10.12	Stock Purchase Agreement dated April 20, 2006 between HSW International and DWS Finanz-Service GmbH	S-4/A	07/10/07	Annex K	

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<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Registrant's Form</u>	<u>Dated</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
10.13	First Amendment to Stock Purchase Agreement dated January 29, 2007 between HSW International and DWS Finanz-Service GmbH	S-4/A	07/10/07	Annex L	
10.14**	Amended and Restated Consulting Agreement dated August 23, 2006 between HSW International and Jeffrey T. Arnold	S-4	03/14/07	10.11	
10.14.1**	Amendment No. 1 to the Amended and Restated Consulting Agreement dated August 23, 2006 between HSW International and Jeffrey T. Arnold	8-K	9/23/08	10.14	
10.15	Amended and Restated Letter Agreement between HowStuffWorks, Inc. and HSW International, Inc. related to certain rights in India and Russia dated as of December 17, 2007	S-1/A	01/14/08	10.15	
10.16	Amended and Restated Letter Agreement between HowStuffWorks, Inc. and HSW International, Inc. related to certain trademark rights dated as of December 17, 2007	S-1/A	01/14/08	10.16	
10.17**	Employment Agreement dated October 16, 2001 between INTAC International, Inc. and Wei Zhou (filed by INTAC International, Inc., Commission File No 000-32621)	8-K	10/30/01	10.5	
10.18	Share Purchase Agreement, dated January 29, 2007, among INTAC International, Inc., INTAC International Holdings Limited, INTAC (Tianjin) International Trading Company, Cyber Proof Investments Ltd. and Wei Zhou	S-4/A	07/10/07	Annex R	
10.19	First Amendment to Share Purchase Agreement dated as of August 23, 2007 among INTAC International, Inc., INTAC International Holdings Limited, INTAC (Tianjin) International Trading Company, Cyber Proof Investments Ltd. and Wei Zhou	S-1/A	01/14/08	10.19	
10.20	Termination Agreement by and between HSW International, Inc. and HowStuffWorks, Inc., dated as of December 17, 2007	S-1/A	01/14/08	10.20	
10.21	Stock Purchase Agreement between HSW International, Inc. and the investors named therein, dated February 15, 2008	8-K	2/20/08	10.21	

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<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Registrant's Form</u>	<u>Dated</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
10.22**	Separation Agreement with J. David Darnell dated May 13, 2008	10-Q	5/15/08	10.22	
10.23†**	2008 Executive Compensation Plan	8-K/A	1/16/09	10.23	
10.24†	Content License Agreement dated September 17, 2008 between HSW International, Inc. and World Book, Inc. and Amendment	10-Q	11/14/08	10.24	
10.25	Form of Director and Officer Indemnification Agreement	8-K	1/16/09	10.1	
10.26**	Letter Agreement by and between HSW International, Inc. and Gregory Swayne dated September 28, 2009	10-Q	11/16/09	10.26	
10.27**	Confidential Separation and Release Agreement dated as of September 28, 2009, by and between HSW International, Inc. and Henry Adomo	10-Q	11/16/09	10.27	
10.29	Subscription Agreement by and between HSW International, Inc. and Sharecare, Inc., dated as of October 30, 2009	10-Q	11/16/09	10.29	
10.30	Secured Promissory Note issued by HSW International, Inc. to Sharecare, Inc., dated as of October 30, 2009	10-Q	11/16/09	10.30	
10.31†	Letter Agreement for Services Agreement by and between HSW International, Inc. and Sharecare, Inc., dated as of October 30, 2009	10-Q/A	1/22/10	10.31	

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<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Registrant's Form</u>	<u>Dated</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
10.31.1	First Amendment to the Letter Agreement for Services by and between Sharecare, Inc. and HSW International, Inc. dated December 30, 2009	8-K	1/7/10	10.31.1	
10.31.2	Second Amendment to the Letter Agreement for Services by and between Sharecare Inc and HSW International, Inc. dated June 30, 2010	10-Q	8/12/2010	10.35	
10.32	License Agreement dated as of October 30, 2009, by and among HSW International, Inc., Sharecare Inc. ZoCo 1, LLC, Discovery SC Investment, Inc., Oz Works, L.L.C., and Arnold Media Group, LLC	10-Q/A	1/22/10	10.31	
10.33	Sublease Agreement by and between HSW International, Inc. and Sharecare, Inc. dated as of March 30, 2010	8-K	4/5/10	10.33	
10.34**	Letter Agreement by and between HSW International, Inc. and Eric Orme	10-Q	5/14/10	10.34	
10.35**	HSW International, Inc. 2010 Equity Plan	8-K	6/21/10	10.34	
10.37	Senior Revolving Credit Agreement dated March 4, 2011 between HSW International, Inc. and Theorem Capital LLC	8-K	3/10/11	10.37	
10.38	Revolving Promissory Note dated March 4, 2011 issued to Theorem Capital LLC	8-K	3/10/11	10.38	
10.39†	Option to Purchase Shares of Common Stock between HSW International Inc. and Sharecare Inc. dated November 17, 2010				X
10.40	Services Agreement effective as of April 19, 2010, between HSW International, Inc. and Discovery Communications, LLC.				X
14.1	HSW International, Inc. Amended and Restated Code of Business Conduct and Ethics	8-K	4/18/08	14.1	
21.1	Subsidiaries				

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<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Registrant's Form</u>	<u>Dated</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
23.2.1	Consent of PricewaterhouseCoopers LLP				
31.1	Certification by the Principal Executive Officer pursuant to Section 240.13a-14 or section 240.15d-14 of the Securities and Exchange Act of 1934, as amended				X
31.2	Certification by the Principal Financial and Accounting Officer pursuant to Section 240.13a-14 or section 240.15d-14 of the Securities and Exchange Act of 1934, as amended				X
32*	Certification by the Principal Executive Officer and Certification by the Principal Financial and Accounting Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				

(1) Schedules and exhibits have been omitted from the exhibit. A list of omitted schedules and exhibits is set forth immediately following the table of contents of the exhibit. Copies will be provided to the Commission upon request.

† The registrant has requested confidential treatment with respect to certain portions of this exhibit. Such portions have been omitted from this exhibit and have been filed separately with the United States Securities and Exchange Commission.

\* This exhibit is hereby furnished to the SEC as an accompanying document and is not to be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of the Section nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

\*\*Executive Compensation Arrangement pursuant to 601(b)(10)(iii)(A) of Regulation S-K

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-127149) of HSW International, Inc. of our report dated March 29, 2011 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

*/s/ PricewaterhouseCoopers LLP*

Atlanta, Georgia

March 29, 2011

**Certification pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gregory M. Swayne, certify that:

1. I have reviewed this Annual Report on Form 10-K of HSW International, Inc.;
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 quarterly 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this annual 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: March 29, 2011

/s/ Gregory M. Swayne

Gregory M. Swayne  
Chief Executive Officer

A signed original of this written statement required by Section 302, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 302, has been provided to HSW International and will be retained by HSW International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

**Certification pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Shawn G. Meredith, certify that:

1. I have reviewed this Annual Report on Form 10-K of HSW International, Inc.;
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 quarterly 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this annual 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: March 29, 2011

/s/ Shawn G. Meredith

Shawn G. Meredith  
Chief Financial Officer

A signed original of this written statement required by Section 302, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 302, has been provided to HSW International and will be retained by HSW International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification pursuant to Title 18 of the United States Code Section 1350,  
as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, each of the undersigned officers of HSW International, Inc. (the "Company") hereby certifies that the Company's Annual Report on Form 10-K for the period ended December 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the period presented in the Report.

March 29, 2011

By: /s/ Gregory M. Swayne  
Gregory M. Swayne  
Chief Executive Officer

March 29, 2011

By: /s/ Shawn G. Meredith  
Shawn G. Meredith  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act") or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to HSW International, Inc. and will be retained by HSW International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.



Portions of this exhibit marked [\*] are requested to be treated confidentially.

**THIS OPTION AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND MAY NOT BE SOLD OR OFFERED FOR SALE, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN AVAILABLE EXCEPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.**

**OPTION TO PURCHASE SHARES OF COMMON STOCK**

Issue Date:	November 17, 2010
Expiration Date:	July 30, 2011
Number of Shares subject to Option:	[*]
Option Purchase Price:	[*]% X \$[*] X [*] = \$[*]
Exercise Price:	\$[*]
Holder:	HSW International, Inc.

**FOR VALUE RECEIVED**, Sharecare, Inc., a Delaware corporation (the "**Company**"), hereby grants to the Holder named above (the "**Holder**") the right to purchase from the Company up to the number of shares of the Company's common stock subject to this option (this "**Option**") as set forth above (the "**Option Shares**"). By acceptance of this Option, the Holder agrees to all the terms and conditions hereof.

- 1. Option Shares; Exercise Price; Payment.** Holder has purchased this Option from the Company in exchange for payment of the Option Purchase Price set forth above (the "**Purchase Price**"), which amount has been received by the Company. This Option is exercisable for up to the number of Option Shares set forth above, at the per share exercise price set forth above (the "**Exercise Price**").
- 2. Exercise Period.** This Option may be exercised at any time during the period commencing on the Issue Date identified above and ending at 5:00 p.m., Atlanta local time, on the Expiration Date identified above, unless sooner terminated in accordance with the provisions hereof (the "**Exercise Period**").
- 3. Method of Exercise.** This Option may be exercised in as to all of the Option Shares, but no less than all of the Option Shares, by delivery of the following to the Company at its address set forth on the signature page hereto (or at such other address as it may designate by notice in writing to the Holder): (a) an executed Notice of Exercise in the form attached hereto as **Exhibit A**; (b) payment in United States dollars by check or wire transfer in readily available funds of the aggregate Exercise Price of the Option Shares to be purchased (except as provided in the next sentence); and (c) this Option. Upon exercise of this Option, the Company shall as promptly as practicable, and in any event within 15 days thereafter, execute and deliver to the Holder of this Option a certificate or certificates for the total number of Option Shares for which this Option is being exercised in the name of Holder.

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[\*] Confidential treatment requested; certain information omitted and filed separately with the SEC.

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#### 4. Company Agreements.

(a) The Company covenants and agrees that all shares issuable and deliverable to Holder upon exercise of the Option shall, upon issuance and the payment of the Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and non-assessable, and shall be free from all taxes, liens, and charges with respect to the issuance thereof (other than any encumbrances created by or imposed upon the Holder), and shall have the same rights, preferences and privileges, and be subject to the same restrictions, as the Option Shares generally.

(b) The Company further covenants and agrees that during the period within which the Option evidenced hereby may be exercised, the Company will at all times reserve such number of shares as may be sufficient to permit the exercise in full of the Option hereby.

(c) The Company will use reasonable commercial efforts to take all such action to assure that such shares of Option Shares may be issued as provided herein without violation of any applicable law or regulation.

(d) If this Option is mutilated, lost, stolen, or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Option, a new Option, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity, if requested.

5. No Fractional Shares; Share Certificates. No fractional shares shall be issued upon exercise of this Option. If upon exercise of this Option a fractional share results, the Company shall pay the Holder the cash value of that fractional share based on the Exercise Price. The certificates representing any shares purchased upon exercise of this Option shall be delivered to the Holder as soon as practicable after surrender of this Option to the Company (but in no event later than five (5) calendar days after the date of exercise).

6. Adjustment of Exercise Price and Number of Shares. The initial Exercise Price per share shall be subject to adjustment from time to time as hereinafter provided. Upon each adjustment of the Exercise Price, the Holder shall thereafter be entitled to purchase at the Exercise Price resulting from such adjustment, the number of shares obtained by dividing the product of the number of shares purchasable pursuant hereto immediately prior to such adjustment and the Exercise Price immediately preceding such adjustment by the Exercise Price resulting from such adjustment.

(a) Subdivision or Combination of Option Shares. If the Company at any time subdivides its outstanding shares of Option Shares into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, if the outstanding shares of Option Shares shall be combined into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased.

(b) Stock Dividends. If at any time or from time to time the holders of Option Shares (or any shares of stock or other securities at the time receivable upon the exercise of this Option) shall have received or become entitled to receive, without payment therefor, additional shares of Option Shares, or any shares of stock or other securities whether or not such securities are at any time directly or indirectly convertible into or exchangeable for Option Shares, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution, then and in each such case, Holder hereof shall, upon the exercise of this Option, be entitled to receive, in addition to the number of shares of Option Shares receivable thereupon, and without payment of any additional consideration therefore, the amount of stock and other securities which such Holder would hold on the date of such exercise had it been the holder of record of such Option Shares as of the date on which holders of Option Shares received or became entitled to receive such shares and/or all other additional stock and other securities.

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(c) Reorganization, Reclassification, Consolidation, Merger. If any capital reorganization or reclassification of the capital stock of the Company, shall be effected, then, lawful and adequate provision shall be made whereby the Holder shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions herein specified and in lieu of the Option Shares of the Company immediately theretofore issuable upon exercise or the Options, such shares of stock, securities or properties (including cash paid as partial consideration) (collectively, the “*Substitute Securities*”) as may be issuable or payable with respect to or in exchange for a number of outstanding shares of Option Shares equal to the number of shares of Option Shares issuable upon exercise of the Option immediately prior to such reorganization, or reclassification, and in any such case, appropriate provision shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof shall thereafter be applicable, as nearly equivalent as may be practicable in relation to any Substitute Securities thereafter deliverable upon the exercise thereof. The above provisions of this *Section 6(c)* shall similarly apply to successive reorganizations and reclassification.

(d) Adjustments: Generally. The form of this Option need not be changed because of any adjustment pursuant to this *Section 6*. Upon the occurrence of each adjustment pursuant to this *Section 6*, the Company shall promptly provide to Holder a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number of Option Shares or other securities issuable upon exercise of this Option (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based.

7. No Stockholder Rights. Nothing contained herein shall be construed as conferring upon the Holder or any other person any rights, preferences or privileges as a stockholder of the Company, until and only to the extent that this Option is exercised for Option Shares.

8. Restrictions on Transfer. Holder hereby acknowledges that neither this Option nor the shares of Option Shares have been registered under the Securities Act of 1933, as amended (the “*Securities Act*”) or any state securities laws, as amended (“*Blue Sky Laws*”). Holder represents that this Option has been acquired for investment purposes and not with a view to distribution or resale and acknowledges that this Option may not be pledged, hypothecated, sold, made subject to a security interest, or otherwise transferred without (a) an effective registration statement for such Option under the Securities Act and such applicable Blue Sky Laws or (b) an opinion of counsel reasonably satisfactory to the Company that registration is not required under the Securities Act or under any applicable Blue Sky Laws. Transfer of the Option Shares issued upon the exercise of this Option shall be restricted in the same manner and to the same extent as the Option and the other shares of the Company and the certificates, if any, representing such shares of Option Shares shall bear substantially the following legends:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “*ACT*”), OR ANY APPLICABLE STATE SECURITIES LAW AND MAY NOT BE OFFERED, SOLD OR TRANSFERRED UNTIL (a) A REGISTRATION STATEMENT UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS SHALL HAVE BECOME EFFECTIVE WITH REGARD THERETO OR (b) IN THE OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY, REGISTRATION UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED IN CONNECTION WITH SUCH PROPOSED TRANSFER.

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THE SHARES SUBJECT TO THIS CERTIFICATE ARE SUBJECT TO TRANSFER AND OTHER RESTRICTIONS PURSUANT TO THE TERMS OF THE COMPANY'S (a) INVESTORS' RIGHTS AGREEMENT, (b) RIGHT OF FIRST REFUSAL AND CO-SALE AGREEMENT, (c) REGISTRATION RIGHTS AGREEMENT AND (d) VOTING AGREEMENT, EACH DATED AS OF OCTOBER 30, 2009. COPIES OF THESE AGREEMENTS MAY BE OBTAINED FROM THE COMPANY'S ASST. SECRETARY.

9. Miscellaneous.

(a) Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.

(i) This Option shall be governed by and construed under the laws of the State of Delaware in all respects as such laws are applied to agreements among Delaware residents entered into and performed entirely within Delaware.

(ii) Any action brought by any party under or in relation to this Option, including without limitation to interpret or enforce any provision of this Option, shall be brought in, and each party agrees to and does hereby submit to the jurisdiction and venue of, any state or federal court located in New Castle County, Delaware.

(iii) THE PARTIES TO THIS OPTION HEREBY WAIVE THEIR RIGHT TO A TRIAL BY JURY WITH RESPECT TO DISPUTES ARISING UNDER THIS OPTION AND CONSENT TO A BENCH TRIAL WITH THE APPROPRIATE JUDGE ACTING AS THE FINDER OF FACT.

(b) LIMITATION OF DAMAGES. UNDER NO CIRCUMSTANCES WILL ANY PARTY, ITS AFFILIATES, OR THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS BE LIABLE TO ANY OTHER PARTY FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH THIS OPTION OR ITS PERFORMANCE HEREUNDER, INCLUDING LOST PROFITS REGARDLESS OF WHETHER SUCH DAMAGES COULD HAVE BEEN FORESEEN OR PREVENTED BY THE PARTY OR ITS AFFILIATES.

(c) Amendment and Waiver. This Option may be amended or modified, and the obligations of the Company and the rights of the holders of the Options may be waived, only upon the written consent of the Company and the Holder.

(d) Successors and Assigns.

(i) The rights under this Option may only be assigned by Holder in accordance with all of the terms and conditions of this Option and the Investors' Rights Agreement, Right of First Refusal and Co-Sale Agreement, Registration Rights Agreement, and Voting Agreement of the Company (collectively, the "**Investment Documents**") applicable to transfers of shares of Option Shares generally.

(ii) Any assignment of rights permitted hereunder to any assignee or transferee shall only be effective if (A) the transferor, within 10 days after such transfer, furnishes to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such rights are being assigned and (B) such transferee agrees to be subject to the transfer and other restrictions set forth in this Option and in the other Investment Documents (to the extent required by the terms of such Investment Documents). Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the parties hereto and their permitted successors, assigns, heirs, executors, and administrators; *provided, however*, that prior to the receipt by the Company of adequate written notice of the transfer of this Option specifying the full name and address of the transferee, the Company may deem and treat the person or entity listed as the holder of this Option in its records as the absolute owner and holder of this Option for all purposes, including the payment of dividends or any redemption price.

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(e) Waiver, Delays or Omissions. No waivers of any breach of this Option extended by any party hereto to any other party shall be construed as a waiver of any rights or remedies of any other party hereto or with respect to any subsequent breach. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any party, upon any breach, default, or noncompliance by another party under this Option, shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default, or noncompliance, or any acquiescence therein, or of or in any similar breach, default, or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any party's part of any breach, default, or noncompliance under this Option or any waiver on such party's part of any provisions or conditions of this Option must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Option by law, or otherwise afforded to any party, shall be cumulative and not alternative.

(f) Entire Agreement. This Option constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof and no party shall be liable or bound to any other in any manner by any oral or written representations, Optionies, covenants and agreements, except as specifically set forth herein and therein. Each party expressly represents and Options that it is not relying on any oral or written representations, Optionies, covenants or agreements outside of this Option.

(g) Severability. If one or more of the provisions of this Option should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Option, and this Option shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

(h) Notices. All notices required or permitted hereunder shall be in writing and shall be delivered by: (i) electronic mail during normal business hours, as evidenced by electronic records of transmission; (ii) facsimile transmission during normal business hours, as evidenced by facsimile confirmation; (iii) registered or certified mail with the U.S. postal service, postage prepaid, as evidenced by a return receipt or other records of the postal service; or (iv) correspondence through a nationally recognized overnight courier, as evidenced by the records of such courier. All notices shall be effective upon delivery as shown by the applicable evidence. All communications to the Holder shall be sent to the address as set forth in the records of the Company. The Company shall at all times keep a record of the Holder's contact information. The Company shall provide such information to Holder within two days of a written request. Holder may change its address and other contact information by written notice delivered to the Asst. Secretary of the Company. All communications to the Company shall be sent to the address set forth on the signature page hereto. The Company may change its contact information at any time with written notice to Holder, which shall be provided at least ten days prior to such change.

(i) Counterparts. This Option may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

(j) Titles and Subtitles. The titles of the sections and subsections of this Option are for convenience of reference only and are not to be considered in construing this Option.

(k) Pronouns. All pronouns contained herein, and any variations thereof, shall be deemed to refer to the masculine, feminine or neutral, singular or plural, as to the identity of the parties hereto may require.

*[Signatures are on the following page]*

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IN WITNESS WHEREOF, the parties have executed this Option as of the date first written above.

**"COMPANY":**

SHARECARE, INC.

By: */s/Colin Daniel*

Colin Daniel  
Vice President, Finance

Address: Sharecare, Inc.  
Terminus 100  
3280 Peachtree Road Suite 600  
Tel: (404) 835-5718  
Fax: (914) 931-4702

**"HOLDER":**

HSW INTERNATIONAL, INC.

By: */s/ Bradley T. Zimmer*

Bradley T. Zimmer  
Executive Vice President & General Counsel

**Exhibit 10.40**

SERVICES AGREEMENT

THIS SERVICES AGREEMENT (this "Agreement"), effective as of April 19, 2010 (the "Effective Date"), by and between HSW INTERNATIONAL, Inc., with its principal place of business at 3280 Peachtree Road, Suite 600, Atlanta, GA 30305 ("HSWI"), and DISCOVERYCOMMUNICATIONS, LLC, with its principal place of business at One Discovery Place, Silver Spring, MD 20910 (hereinafter "Discovery").

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties mutually agree to enter into a Services Agreement as follows:

1. **Services.** HSWI will provide the consulting services ("Services") to Discovery as described on that Statement of Work attached hereto, and any additional Statements of Work as may be entered into between the parties, in accordance with the specifications and timetable therein. To be effective, any such additional Statements of Work shall specifically identify this Agreement, reference that they are intended to be a Statement of Work thereunder, and be signed in writing by the parties hereto. Any modifications of (which may be referred to as a "change order") or amendments to an effective Statement of Work shall be in a writing signed by the parties hereto, and shall specifically reference the Statement of Work intended to be modified.
  2. **Term of Agreement.** The term of this Agreement (the "Term") shall commence on the Effective Date, and, unless otherwise terminated as provided herein, shall continue for twelve (12) months or until the expiration of the last Statement of Work, whichever is longer.
  3. **Fees, Expenses and Payment.** In consideration for the Services:
    - (a) Discovery shall pay HSWI the fee ("Fee") set forth on each Statement of Work, in accordance with the terms therein.
    - (b) Discovery shall not be liable to HSWI for any expenses paid or incurred by HSWI unless otherwise agreed to and approved by Discovery (the "Expenses"). Any expenses identified in an effective Statement of Work shall be considered agreed to and approved by Discovery.
    - (c) HSWI will invoice Discovery for Expenses, which shall be due and payable within thirty (30) days of receipt of an invoice from HSWI. HSWI will include supporting documentation for Expenses as requested by Discovery.
    - (d) Payroll taxes, including federal, state and local taxes, shall not be withheld or paid by Discovery on behalf of HSWI. HSWI shall not be treated as an employee for federal or state tax purposes with respect to the services performed under this agreement. HSWI shall be responsible to pay all taxes as mandated by law. HSWI is and shall be treated as an independent contractor, and nothing herein shall be deemed to cause this Agreement to create an agency, partnership, or joint venture between the Parties. Nothing in this Agreement shall be interpreted or construed as creating or establishing the relationship of employer and employee between Discovery and either HSWI or any employee, contractor or agent of HSWI. As an independent contractor, HSWI shall be solely liable for tax consequences of this Agreement and the payments hereunder.
  4. **Performance.** Discovery acknowledges that HSWI may use contractors or subcontractors in its discretion in connection with the Services. Unless otherwise specified herein or in an applicable SOW, all such contractors and subcontractors shall be paid directly by HSWI and Discovery shall have no liability or responsibility to any such contractors or subcontractors. HSWI will be fully liable to Discovery for the acts and omissions of its contractors and subcontractors. To the extent such contractors or subcontractors carry insurance as detailed in Section 13 of this Agreement, HSWI shall ensure that such contractors and subcontractors name Discovery, its parents, subsidiaries, affiliates, directors, officers and employees as additional insureds on such policies (excluding Workers' Compensation policies) and shall ensure that such contractors and subcontractors provide certificates of insurance to Discovery evidencing compliance with the insurance requirements in Section 13.
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5. Notices. All notices required by either Party under this Agreement shall be in writing, and shall be deemed to have been given on the date such noticed is presented personally, or transmitted by facsimile (receipt confirmed), two (2) business days after delivery by a nationally recognized courier service, or three (3) days after mailed registered or certified, return receipt requested, to the other Party at the following address, or such other address as a Party may designate by notice to the other Party:

If to  
Discovery:                   Discovery Communications, LLC  
                                  Attn: General Counsel  
                                  One Discovery Place  
                                  Silver Spring, MD 20910

If to HSWI:                   HSW International, Inc.  
                                  Attn: General Counsel  
                                  3280 Peachtree Road, Suite 600  
                                  Atlanta, GA 30305

6. Ownership of Materials.

(a) HSWI covenants and agrees that all of HSWI's Work Product (as defined below) for Discovery, and all of the ideas and other intellectual property contained therein, shall be the sole and exclusive property of Discovery, and Discovery shall maintain all worldwide right, title and interest therein. HSWI agrees to execute any applications, agreements and instruments (including any assignment agreements and instruments) and to do all other things reasonably requested by Discovery, at Discovery's expense in order to vest more fully in Discovery all worldwide ownership rights in such Work Product, including, without limitation, United States and foreign patent or other proprietary rights and copyrights. For purposes hereof, "Work Product" shall mean all deliverables written, created, designed or developed by HSWI in the performance of the Services that are delivered to Discovery pursuant to a Statement of Work.

(b) Notwithstanding the foregoing, the definition of "Work Product" shall not include any deliverables that: (i) Discovery already has license or title to pursuant to separate agreement (including deliverables licensed to Discovery by Sharecare, Inc.); (ii) constitute methodologies, tools, or platform technologies that HSWI uses for multiple products; or, (iii) HSWI does not hold title to, such as third party provided works; provided HSWI shall procure for Discovery the right to use such third party provided works as contemplated herein. Materials described in clauses (i), (ii) and (iii) are hereinafter referred to individually and collectively as "Preexisting Materials"; materials described in clauses (ii) and (iii) are hereinafter referred to individually and collectively as the "HSWI Preexisting Materials"). Unless otherwise expressly enumerated in a Statement of Work, to the extent that any Work Product incorporates any HSWI Preexisting Materials, HSWI hereby grants to Discovery a perpetual, nontransferable, non-exclusive, world-wide and royalty-free license to use, copy, modify and prepare derivative works of such HSWI Preexisting Materials to the extent provided in the applicable Statement of Work solely for purposes of enabling continued use of such Work Product by Discovery.

(c) If anyone or more of the Work Product are protectable by copyright and are deemed in anyway to fall within the definition of "work made for hire," as such term is defined in 17 U.S.C. § 101, such work shall be considered a "work made for hire," the copyright of which shall be owned solely, completely and exclusively by Discovery. If anyone or more of the aforementioned items are protectible by copyright and are not considered to be included in the categories of works covered by the "work made for hire" definition contained in 17 U.S.C. § 101, such items shall be deemed to be assigned and transferred by HSWI completely and exclusively to Discovery by virtue of the execution of this Agreement.

(d) HSWI hereby waives any and all claims that HSWI may have in any jurisdiction to "moral rights" or rights of "*droit moral*" with respect to the Work Product and acknowledges, confirms and agrees that Discovery, without the necessity of any further consideration or action on the part of Discovery or HSWI, shall have the right to make (or have others on Discovery's behalf make) enhancements and derivative works of the same and that Discovery or its designee shall own all worldwide right, title and interest in and to all such enhancements and derivative works.

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7. Content License. To the extent that Discovery provides any content or trademarks to HSWI for use in connection with the Services (for example, providing content to HSWI to incorporate into a website that HSWI is building for Discovery), Discovery grants to HSWI, for the Term of this Agreement, a non-exclusive, royalty-free, non-assignable, non-transferable right and license to use and copy such content and trademarks provided by Discovery to HSWI (collectively, the "Discovery Content") in the exact form provided by Discovery, solely as provided for in the applicable Statement of Work. Except and to the extent otherwise expressly provided in a SOW, no Discovery Content may be modified in any way without the express prior written consent of Discovery in each instance. HSWI shall make no other use of the Discovery Content without the express prior written consent of Discovery in each instance. All uses of Discovery's trademarks as authorized hereunder will be in compliance with Discovery's written trademark guidelines provided by it to HSWI, as the same may be modified from time to time. HSWI agrees that it will not in any way suggest or imply by the use of Discovery's trademarks that any of its products or services are affiliated with, endorsed or sponsored by or created in association with the other party except to the extent of the relationship established under this Agreement or as otherwise authorized under law. HSWI acknowledges that Discovery owns all right, title and interest in and to the Discovery Content (including any goodwill associated therewith) and retains all rights with respect thereto.

8. Acceptance. All Services shall be subject to acceptance by Discovery in accordance with this Section. Acceptance of any such Services or component thereof shall be determined by whether the Services and/or Work Product, as applicable, meet the specifications defined in the applicable Statement of Work. Discovery shall promptly notify HSWI in writing if any Services or component thereof does not meet the acceptance criteria applicable thereto, and HSWI shall use commercially reasonable efforts to remedy the deficient and/or nonconforming Services and resubmit the same to Discovery. The parties agree to cooperate with one another in good faith in connection with this process, and Discovery agrees that it will not unreasonably withhold or delay acceptance of any conforming Services.

9. Limitation of Liability.

(a) Force Majeure. Neither party will be liable for any failure to perform any obligation (other than payment obligation) hereunder, or from any delay in the performance thereof, due to causes beyond its control, including industrial disputes of whatever nature, acts of God, public enemy, acts of government, failure of telecommunications, fire or other casualty. Discovery shall have the right, but not the obligation, to terminate this Agreement without any further obligation to HSWI in the event of a force majeure which lasts for a period of ten (10) consecutive days or fifteen (15) days in aggregate during any six-month period.

(b) DISCLAIMER OF WARRANTIES. EXCEPT AS EXPRESSLY STATED IN THIS AGREEMENT, THERE ARE NO WARRANTIES OR REPRESENTATIONS AS TO MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR OTHER WARRANTIES OR REPRESENTATIONS, WHETHER STATUTORY, EXPRESS OR IMPLIED, IN LAW OR IN FACT, ORAL OR IN WRITING. EACH PARTY HEREBY ACKNOWLEDGES THAT IT HAS NOT RELIED UPON ANY WARRANTY OR REPRESENTATION MADE BY THE OTHER EXCEPT AS SPECIFICALLY SET FORTH IN THIS AGREEMENT.

(c) Special Damages. Under no circumstances will either party, its affiliates, or their respective officers, directors, employees, and contractors be liable to the other party for any indirect, incidental, special or consequential damages in connection with this Agreement or its performance hereunder, including lost profits regardless of whether such damages could have been foreseen or prevented by the party. The foregoing shall not be deemed or construed to limit HSWI's obligation to indemnify Discovery as set forth in Section 13.

(d) Damages Cap. The liability of either party to the other party hereto arising out of or resulting from performance or non-performance under this Agreement shall be limited to the amount of Fees paid or payable by Discovery, with respect to the applicable Statement of Work. The foregoing shall not be deemed or construed to limit HSWI's obligation to indemnify Discovery as set forth in Section 13.

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10. Representations.

(a) HSWI represents and warrants to Discovery that: (i) it holds all necessary rights to provide the Services and to grant ownership or license, as applicable, of the Work Product and the HSWI Preexisting Materials to Discovery as contemplated hereby; and (ii) the Services and Work Product and HSWI Preexisting Materials, and the use, reproduction, distribution, broadcast, display and transmission thereof as contemplated hereby, will not (A) violate any federal, state or local laws, rules, or regulations (including, without limitation, any false advertising, unfair competition or anti-discrimination laws or regulations), or any industry codes or rules, or (B) violate, infringe or misappropriate any rights of any third parties (including, but not limited to, any copyright, patent, trademark, privacy, publicity, anti-defamation, trade secret or other proprietary, property or personal right).

(b) Discovery represents and warrants to HSWI that the Discovery Content, and the use, reproduction, distribution, broadcast, display and transmission thereof as contemplated hereby, will not (A) violate any federal, state or local laws, rules, or regulations (including, without limitation, any false advertising, unfair competition or anti-discrimination laws or regulations), or any industry codes or rules, or (B) violate, infringe or misappropriate any rights of any third parties (including, but not limited to, any copyright, patent, trademark, privacy, publicity, anti-defamation, trade secret or other proprietary, property or personal right. Discovery shall be solely responsible for securing any and all further clearances, permissions, approvals, authorizations, rights and licenses necessary for the publication of any elements contained in the Discovery Content.

11. Confidentiality; Compliance with Insider Trading Policy: HSWI and Discovery agree that the terms of the Confidentiality agreement made by and between them and dated are incorporated by reference herein.

12. Indemnity and Insurance:

(a) HSWI shall fully defend, indemnify and hold harmless Discovery, its parents, subsidiaries, affiliates and each of their officers, directors, agents and employees (collectively, "Indemnified Parties") against any and all claims, actions, losses, liabilities, damages, costs or expenses (including reasonable attorneys' fees and expenses) arising out of the acts or omissions of HSWI, its employees, contractors, subcontractors or agents or breach or alleged breach of any warranty, representation or other provision of this Agreement by HSWI.

(b) Discovery shall fully defend, indemnify and hold harmless HSWI, its parents, subsidiaries and affiliates and each of their officers, directors, agents and employees against any and all claims, actions, losses, liabilities, damages, costs or expenses (including reasonable attorneys' fees and expenses) arising out of the breach or alleged breach of any warranty, representation or other provision of this Agreement by Discovery.

(c) HSWI shall at all times comply with all applicable workers compensation, occupational disease, and occupational health and safety laws, statutes, and regulations to the full extent applicable. HSWI shall purchase and maintain insurance policies in accordance with the specifications set forth below.

*For Workers' Compensation and Employer's Liability:* HSWI shall purchase workers' compensation (including occupational disease) and employer's liability insurance providing benefits to all its employees with limits no less than:

Workers' Compensation:	Statutory
Employer's Liability:	\$500,000 each accident
	\$500,000 each employee (disease)
	\$500,000 policy limit (disease)

*For Professional Liability:* HSWI shall obtain and maintain a professional liability policy in amounts not less than \$1,000,000 each occurrence, \$1,000,000 aggregate.

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*For Intellectual Property Liability:* HSWI shall obtain and maintain an errors and omissions policy covering all Work Product in amounts not less than \$1,000,000 (single occurrence) or \$1,000,000 (in aggregate).

*For General Liability (including Products and Completed Operations):* HSWI shall obtain and maintain a commercial general liability policy in amounts not less than \$1,000,000 each occurrence, \$1,000,000 general aggregate (other than products and completed operations), and \$1,000,000 products and completed operations aggregate.

*For Umbrella Liability:* HSWI shall obtain and maintain an umbrella/excess liability policy scheduling at a minimum the General Liability, Employer's Liability and Auto Liability coverage parts as underlying insurance with policy limits of not less than \$1,000,000 each occurrence and in the aggregate (application of aggregates should follow the primary coverage terms). Furthermore, the policy shall (a) contain a severability or separation of insureds clause in favor of additional insureds and (b) follow the terms and conditions of the primary policies.

*General Requirements:* HSWI shall pay all deductibles, retentions and premiums associated with the above policies. All insurance policies (a) shall be carried by an insurance company licensed in Maryland and shall carry an A.M. Best rating of A: X or better; (b) contain a waiver of subrogation clause in favor of Discovery; (c) name Discovery, its parents, subsidiaries, affiliates, directors, officers and employees as an additional insureds (excluding Workers' Compensation policies); and (d) shall have a deductible of no greater than \$10,000. No policy shall be cancelled or non-renewed without first providing Discovery with 30 days' advance notice in writing. HSWI shall provide certificates of insurance evidencing full compliance with the insurance requirements contained herein upon request by Discovery.

13. **Assignment.** Upon advance written notice either Party may assign this Agreement in its entirety to a parent, subsidiary or successor in interest to the business of the Party, provided such assignee is able to and does fulfill the obligations of the assignor. Notwithstanding any such assignment, the assignor shall remain primarily liable to the other Party for the assignee's performance under this Agreement. This Agreement may not be otherwise assigned or transferred by either Party without the prior written consent of the other Party, which will not be unreasonably withheld.

14. **Entire Agreement.** These terms and conditions herein, including any Statements of Work, constitute the entire agreement between the Parties with respect to the subject matter hereof; all prior agreements, representations, statements, negotiations and undertakings, whether written or oral, are superseded hereby. This agreement may be supplemented, amended or revised only by a writing that is signed by each of the parties.

15. **Governing Law/Jurisdiction and Venue.** This Agreement shall be exclusively governed by and construed under the laws of the State of New York, without regard to its conflict of laws provisions and the doctrine of forum non-conveniens.

16. **Non Waiver.** The failure of either party to this agreement to exercise any of its rights under this agreement at any time does not constitute a breach of this agreement and shall not be deemed to be a waiver of such rights or a waiver of any subsequent breach,

17. **Severability.** If any part of this agreement is held to be unenforceable, the rest of this agreement shall nevertheless remain in full force and effect.

18. **Survival.** Any provision of this Agreement which contemplates performance or observance subsequent to any termination or expiration of this Agreement or which must survive in order to give effect to its meaning, shall survive the expiration or termination of this Agreement.

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives.

**DISCOVERY:**

**HSWI:**

**Discovery Communications, LLC**

**HSW International, Inc.**

By: */s/ Kelly Day*

By: */s/ Bradley T. Zimmer*

Name: Kelly Day

Name: Bradley T. Zimmer

Title: EVP & GM

Title: Executive Vice President & General Counsel

Date: May 25, 2010

Date: June 4, 2010