

Market Leader, Inc.
Form 10-K
March 13, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to

Commission file number: 000-51032

Market Leader, Inc.

(Exact name of registrant as specified in its charter)

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Washington
(State or other jurisdiction of incorporation or organization)
11332 NE 122nd Way Kirkland, WA
(Address of Principal Executive Offices)

91-1982679
(I.R.S. Employer Identification No.)
98034
(Zip Code)

425-952-5500

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Name of Each Exchange on Which Registered
Common Stock, \$.001 par value	The Nasdaq Global Select 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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

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

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant based on the closing sale price on June 30, 2008 as reported on The Nasdaq Global Select Market was approximately \$57,704,000.

As of March 2, 2009, there were outstanding 24,090,760 shares of the registrant's common stock which is the only class of common stock of the registrant.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of Market Leader, Inc. s definitive proxy statement for its 2009 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A are incorporated by reference in Part III of this Form 10-K.

Table of Contents**FORM 10-K TABLE OF CONTENTS**

	Page
<u>PART I</u>	
Item 1.	<u>Business</u> 3
Item 1A.	<u>Risk Factors</u> 9
Item 1B.	<u>Unresolved Staff Comments</u> 20
Item 2.	<u>Properties</u> 20
Item 3.	<u>Legal Proceedings</u> 20
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u> 20
<u>PART II</u>	
Item 5.	<u>Market for the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u> 21
Item 6.	<u>Selected Consolidated Financial Data</u> 24
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 25
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 43
Item 8.	<u>Financial Statements and Supplementary Data</u> 43
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> 44
Item 9A.	<u>Controls and Procedures</u> 44
Item 9B.	<u>Other Information</u> 46
<u>PART III</u>	
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u> 46
Item 11.	<u>Executive Compensation</u> 46
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 46
Item 13.	<u>Certain Relationships and Related Transactions and Director Independence</u> 47
Item 14.	<u>Principal Accountant Fees and Services</u> 47
<u>PART IV</u>	
Item 15.	<u>Exhibits and Financial Statement Schedules</u> 48

Table of Contents

PART I

ITEM 1: BUSINESS

Our Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements relating to our anticipated plans, products, services, and financial performance. The words believe, expect, anticipate, intend and similar expressions identify forward-looking statements, but their absence does not mean the statement is not forward looking. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those anticipated in the forward looking statements. Factors that could affect our actual results include, but are not limited, to our ability to retain and increase our customer base, to respond to competitive threats and real estate market conditions, to manage lead generation and other costs, to develop new products, to expand into new lines of business, and those discussed in Risk Factors contained in Item 1A. of this Annual Report on Form 10-K and in our other SEC filings. Given these risks and uncertainties, you should not place undue reliance on these forward looking statements. The forward looking statements are made as of the date of this report and, except as required by law, we assume no obligation to update any such statements to reflect events or circumstances after the date hereof.

Company Background and Overview

Market Leader, Inc. provides real estate professionals with the tools and services they need to manage and grow their real estate businesses. We have been an innovator in internet-based marketing services for real estate professionals since the Company's inception. We recently began to shift our business model from its original lead generation model toward offerings that combine software-as-a-service with access to industry-leading media buying and lead generation services. Traditional lead generation products continued to account for the majority of customer relationships and revenue in 2008.

In November 2008 we introduced Growth Leader™, a personalized website and proprietary customer relationship management tool for real estate agents, as well as a related product for agent teams, Team Leader™. Together with RealtyGenerator™, a turnkey lead generation and lead management system for real estate brokerage companies that we acquired in 2007, these offerings constitute the new products that support the shift in our business model. These product offerings feature Vision, a personalized website and proprietary customer relationship management tool for real estate agents, and include access to industry-leading media buying and lead generation services to help them attract new clients and promote themselves throughout their communities.

Additionally, Market Leader provides consumers with free access to the information and tools they need throughout the home buying and selling process. Our nationwide consumer web sites include: JustListed.com®, a service that notifies home buyers as soon as new homes hit the market; HouseValues.com®, a service that provides home sellers with market valuations of their current homes; and HomePages.com, a real estate portal that enables consumers to see all the home listings in their area, view detailed neighborhood and school data, compare recent home sales, find local real estate agents, and find the value of their own homes. Our Vision-based products also provide consumers with free access to similar information through localized web sites that we operate on behalf of our real estate professional customers.

On November 1, 2007, we completed our acquisition of substantially all of the assets of Realty Generator, LLC (Realty Generator) and a related entity for approximately \$10.2 million in cash and assumed liabilities as well as contingent consideration based on the future performance of the acquired entities through June 30, 2009. Including contingent consideration earned through December 31, 2008, the total purchase price was \$11.2 million. RealtyGenerator provides services to real estate brokers, including a web site, a proprietary customer relationship management (CRM) tool that enables communication with prospective customers, past clients and local real estate professionals, marketing materials and dedicated training and account management support. Tight integration between the web site and CRM tool gives real estate professionals real-time insight into consumers' online behavior, and allows the broker to monitor and track their agents' follow-through. We have

Table of Contents

leveraged these and other aspects of RealtyGenerator's technology and business model to develop other Vision-based products and with our November 2008 introduction of Growth Leader and Team Leader, we thereby achieved a key intended benefit of the acquisition a year earlier.

We believe that our new product family provides a better consumer experience than our legacy lead generation products while also resulting in higher quality leads. Based on our experience with RealtyGenerator customers, we believe that Vision products will command higher customer satisfaction and longer customer retention than our original lead generation products. We expect that Vision products will account for the majority of our revenue by the end of 2009.

In 2005, we launched and acquired new products targeted at mortgage professionals whom we believe have underlying business synergies with our real estate customers. Since then, the continued deterioration of mortgage industry fundamentals and strong competition made this business especially challenging for new market entrants like Market Leader. As a result, in January 2007 we chose to eliminate operations that sold directly to mortgage professionals as well as discontinue one of our primary mortgage products. We no longer offer the semi-exclusive leads product that was part of The Loan Page acquisition in late 2005. We continue to be primarily focused on serving real estate professionals. We do facilitate our brokerage customers' partnership and collaboration with their chosen lender partner through features of RealtyGenerator.

The Company was incorporated in the State of Washington on May 28, 1999 as HouseValues, Inc. After operating as a privately-held business for several years, we completed our initial public offering in December 2004. In November 2008, we changed our name to Market Leader, Inc.

Services for Our Customers – Real Estate Professionals

We provide the majority of our real estate professional customers with a bundle of services that includes:

Customer relationship management (CRM) tools and content designed to help our customers build relationships with prospective home buyers and sellers over the Internet. Market Leader CRM is our original CRM tool that is bundled with our JustListed® and HouseValues® lead generation services. Our new services – RealtyGenerator, Growth Leader and Team Leader – are based on our new Vision customer relationship management tool. Both Market Leader CRM and Vision are online prospect management systems that help our real estate professional customers manage and cultivate prospects. By automating many of the repetitive tasks that are required to follow up and communicate with potential clients, these tools allow customers to focus on transacting their current business while efficiently marketing their services to potential clients to maintain a pipeline of future business opportunities. In addition to the content and activity management features provided by many CRM tools, Market Leader CRM and Vision also include proprietary real estate content and consumer email campaigns. By directing our content and campaigns to their consumer prospects, our customers position themselves as highly-engaged, technology-savvy neighborhood experts. By virtue of incorporating a tightly-integrated, agent-branded website, the Vision system offers the added advantage of real-time insight into consumer online behavior.

Community and training services that enable our customers to share and learn best practices to help them close more business with Internet consumers. Our customers are invited to participate in company-hosted group coaching calls and peer-to-peer – best practices training conference calls. Customers using Vision additionally have access to performance measurement and benchmarking tools that enable comparison of key performance factors to those of successful producers while highlighting areas for improvement.

Leads in the specific local communities where our real estate agent customers work generated from our HouseValues and JustListed real estate web sites, or

Advertising services to drive consumer traffic to the agent-branded web sites provided to RealtyGenerator broker customers and real estate agent customers of Growth Leader and Team Leader.

Table of Contents

Our lead generation offerings generally provide a bundle of services for a monthly fixed fee pursuant to contracts, most of which have an initial term of one year, continuing on a month-to-month basis until terminated. Customers of Vision-based products commonly buy advertising services in addition to their software-as-a-service subscription, and they have the flexibility to adjust their advertising expenditures as business needs dictate. Vision-product software subscriptions are generally offered for a monthly fixed fee pursuant to contracts, most of which have an initial term of one year, continuing on a month-to-month basis until terminated. The company occasionally offers some customers shorter-term trials in connection with promotional marketing relationships. Growth Leader customers also have the option of selecting agreements with a short-term commitment and higher monthly fees.

We believe that successful real estate professionals typically have systems and processes in place to capture and develop leads or prospects, and to maintain and expand their businesses. In addition, we believe that the value of the web site traffic and leads generated for our customers through our network of web sites is enhanced when combined with our integrated offerings that help our customers convert these leads into closed transactions. Most real estate transactions are closed with the assistance of a real estate professional and that portion has increased in recent years. In 2001, 69 percent of all buyers purchased their home through a real estate agent or broker. In 2008, that number was 81 percent, according to the National Association of Realtors Profile of Home Buyers and Sellers for 2008.

We believe that our specialized real estate advertising capabilities provide a competitive advantage for our customers. We use direct-response advertising, including television and Internet media, to drive prospective home buyers and sellers to our real estate-oriented web sites. We regularly advertise on national television networks and major Internet search engines and other web sites, and supplement this advertising with local television advertising and other media to help manage and geographically target consumer traffic and lead volume. In 2008, we were named an authorized Google reseller that enables us to more effectively and efficiently drive consumer traffic to our customers.

We continuously monitor, improve and refine our service offerings, based on quantitative and qualitative feedback from our real estate professional customers.

Services for Consumers Prospective Home Buyers and Sellers

We operate a network of real estate web sites that provide millions of consumers with free access to the information and services that they seek throughout the home buying and selling process.

JustListed[®] alerts prospective home buyers via email to new home listings that match their specific criteria. This information is delivered by a local real estate professional that has access to the listings and specializes in that community. JustListed was launched in 2004.

HouseValues[®] provides prospective home sellers with a free estimate of their home's current market value and suggested listing price prepared by a local real estate professional that knows the current market conditions and specializes in the seller's community. HouseValues was launched in 1999.

RealtyGenerator, *Team Leader* and *Growth Leader* deliver free services to consumers in the home buying and selling process by providing them access to a broker's or agent's web site that contains home listings and other detailed neighborhood information regarding the specific area in which the consumer is interested. In contrast to our lead generation products, these products give consumers the immediate gratification of home listings access without requiring any attention from our agent customers.

HomePages[®] delivers free services to consumers in the home buying and selling process by combining home listings, and detailed neighborhood information to provide a comprehensive view of each home and neighborhood. The site features homes for sale and displays detailed information on nearby schools, parks, shops and local services. HomePages also provides home owners with information on recently sold homes in their neighborhood as well as the ability to get home value estimates from local experts.

Table of Contents

We believe that our focus on internet marketing products is a competitive advantage as we compete for real estate marketing dollars. According to the National Association of Realtors Profile of Home Buyers and Sellers, a significant and increasing number of home buyers used the Internet to search for homes, 87% in 2008 which is up from 71% five years ago. Our products help real estate agents provide consumer information services, thereby positioning them to be of assistance to these consumers in their home buying and selling transactions.

Sales and Marketing

We use a variety of marketing methods to build awareness of our product offerings and to attract new customers to our services. These methods include primarily direct marketing, advertising, and public relations efforts, as well as customer referral programs and trade shows. We reach new customers primarily through telesales employees at our Kirkland, Washington facility and, in some cases, from field-based personnel. Sales staff comprises approximately 38% of our total sales and marketing employees.

We sell our products to customers located both inside and outside the United States. For the years ended December 31, 2008, 2007, and 2006, revenue generated from customers located within the United States was \$35.1 million, \$56.5 million and \$82.8 million, respectively, compared to revenue generated from customers located outside the United States of \$3.3 million, \$3.3 million and \$3.0 million, respectively.

Competition

We believe the principal competitive factors affecting our markets are product selection and quality; price; customer service and support; brand recognition; and reputation, reliability and trust. We believe that we compete effectively in these areas.

We also believe that several factors contribute to our competitive advantage. The size and geographic breadth of our customer base creates efficiencies in consumer lead generation, web site traffic and distribution of traffic and prospects that may not be available to competitors that lack our scale and nationwide distribution. Success in our business requires a competency in small business sales and service that we have developed. The challenges we encountered building our customer base while expanding to nationwide presence will be encountered by other entrants as they seek to establish and grow competitive offerings. Finally, we have recently introduced services that provide our real estate professional customers greater insight into the online behavior of their consumer prospects than traditional real estate lead generation systems. The differentiated design and features of our services can result in efficiency and efficacy when deployed by real estate professionals and these customers' success and satisfaction can lead to strong customer retention and high lifetime customer value.

Our current competitors include:

Traditional Sellers of Advertising to Real Estate Professionals. We compete with traditional sellers of advertising, including local and regional newspapers, local magazines, and rack publications advertising homes for sale, for a share of the marketing dollars that residential real estate agents and brokers spend to attract prospective home buyers and sellers.

Internet Media Companies. We compete with large Internet media companies, including AOL, Google, MSN, and Yahoo! for residential real estate professionals' marketing dollars.

Online Companies Focused on Residential Real Estate. We compete with a variety of online marketing and lead generation companies that focus exclusively on the real estate industry. Such companies include Homes.com and Trader Publishing, Classified Ventures and HomeGain, RealEstateABC of InternetBrands, Reply.com, Zillow, Realtor.com, HomeStore and Move.com, and IAC/InterActiveCorp, which includes Domania.com, ServiceMagic and RealEstate.com. All of these companies have established web sites and compete or may compete for real estate professionals' advertising expenditures. In addition, several entities present an automated value model home estimator or homes for sale listings based on publicly available information, including Trulia and Zillow.

Table of Contents

Traditional Real Estate Brokerage Firms. Some real estate brokerage firms currently offer services similar to ours, and in the future these firms or other brokerage/franchise firms may become direct competitors. A significant percentage of residential real estate agents are affiliated with large national or regional brokerage firms.

Discounted and Non-Traditional Real Estate Brokerage Firms. Some companies have extended their focus on online consumers to discount and non-traditional real estate brokerages. Companies such as Redfin, ZipRealty, and others offer similar consumer information services as well as discounted transaction fees to home buyers and sellers. While more directly competitive with traditional brokerage firms, these companies compete with us for the online consumers. Additionally, services such as ForSaleByOwner.com, FSBO.com, MLS4Owners.com, and LetsGoFizbo.com offer home sellers relatively low and often fixed fee services that compete with the traditional real estate brokerage firms and their agents, including those in our customer base.

Technology and Infrastructure

We have built and acquired proprietary, feature-rich systems to interact with consumers, provide our suite of services to real estate professionals and manage our business.

RealtyGenerator, Team Leader and Growth Leader. These Vision-based products include web sites that we create on behalf of our real estate professional customers to enable consumers to research home listings and comprehensive neighborhood information online. These web sites are tightly integrated with our Vision CRM tool. We have built systems to deliver web site traffic to our customers and consider our advertising capabilities to be a key competitive advantage. We also provide our real estate professional customers with marketing materials, training and support. Our development of new services on the Vision platform is expected to be more efficient than enhancement to our original Market Leader CRM. We have focused our ongoing development efforts on the Vision products, which we expect will drive the majority of our revenue by the end of 2009.

HouseValues.com and JustListed.com. These web sites, in combination with our lead management system, interact with thousands of Internet-enabled consumers every day and automatically distribute leads from prospective home buyers and sellers to agent customers. We have built tracking and testing systems into HouseValues.com and JustListed.com so that we can monitor visitor conversion metrics. Our development of a new lead routing system in 2008 improved lead monetization by delivering some of the JustListed inquiries that were previously un-monetized to RealtyGenerator customers.

HomePages.com. This web site enables consumers to research home listings and comprehensive neighborhood information online. We have built systems to deliver advertising impressions and featured homes listings to consumers on behalf of agents subscribing to our HomePages Showcase marketing package.

Market Leader CRM. This product is an online prospect management system through which we distribute leads from prospective home buyers and sellers to agent customers and that helps our customers manage and cultivate those leads.

Traffic Routing and Lead Management Systems. Our traffic routing and lead management systems are geography-targeted, business-rule driven systems that enable us to manage traffic and lead flow and to optimize monetization across our agent and broker customer base. For example, an upgrade to the traffic router in 2008 enables us to route inquiries generated on our JustListed.com website to our RealtyGenerator customers, dependent on customer needs. Our traffic routing and lead management systems manage and distribute leads from our HouseValues and JustListed web sites as well as traffic and leads sourced through affiliates or to wholesale customers.

Our systems are hosted in co-location facilities in Kent, Washington and Englewood, Colorado. We have secure and fully redundant systems and our software and databases are backed up daily and stored at an offsite location.

Table of Contents

Intellectual Property

To protect our proprietary rights, we rely on a combination of trademark, copyright and trade secret laws, and confidentiality agreements with our employees and consultants, and confidentiality provisions in our vendor and client agreements. We currently have eleven trademarks registered in the United States and Canada and applications for additional trademarks are pending in the United States and Canada for our product names and certain words and phrases that we use in our business. We also rely on copyright laws to protect computer programs relating to our web sites and our proprietary technologies although to date we have not registered for copyright protection. We currently have four applications for patents pending. We have also registered numerous Internet domain names related to our business in order to protect our proprietary interests.

Government Regulation

Our business is subject to various laws and regulations relating to Internet commerce and telemarketing, as well as federal and state laws and regulations relating to real estate and mortgage matters.

Regulation Relating to Internet Commerce. Several jurisdictions have recently proposed or adopted privacy-related laws that restrict or prohibit unsolicited email solicitations, commonly known as spam, that impose complex and often burdensome requirements in connection with sending commercial email.

Telemarketing Laws. Both federal and state laws regulate the practice of telemarketing. Most jurisdictions have implemented do not call lists. In addition, a number of states require telemarketers to register with the state and post a bond, prohibit automated systems and recorded messages, impose disclosure requirements upon sales calls, and require written sales contracts for certain telemarketing transactions.

State Real Estate Regulation. Real estate licensing laws vary from state to state, but generally require corporations engaged in the real estate brokerage business to obtain a corporate real estate broker's license. We currently hold a corporate real estate broker's license in the State of Washington and various other states and intend to obtain licenses in other states that we determine are necessary for our business.

We believe that our operations are in compliance with applicable laws and regulations in all material aspects.

Seasonality

See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading The Impact of Seasonality and Cyclicity, which is incorporated herein by reference, for a discussion of the extent to which our business is seasonal.

Employees

As of December 31, 2008, we had 160 employees located at our corporate headquarters in Kirkland, Washington.

None of our employees are covered by a collective bargaining agreement. We have never experienced employment-related work stoppages and consider our employee relations to be good.

Available Information

Our financial statements for the three years ended December 31, 2008, are included in Item 8 of this report. Our Internet address is www.marketleader.com. On the Investor Relations section of our web site, we provide free access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and

Table of Contents

any amendments to those reports as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC). The information found on our web site is not a part of this or any other report filed with or furnished to the SEC. In addition, our filings are available at the SEC 's web site (www.sec.gov) and at the SEC 's Public Reference Room at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

ITEM 1A: RISK FACTORS

You should carefully consider the following factors that may affect our business, future operating results and financial condition, as well as other information included in this Annual Report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be materially adversely affected.

Our operating results are subject to fluctuations that may cause our stock price to decline.

We have reported net losses for the past three years. Our operating results have fluctuated in the past and are likely to continue to do so in the future. Our revenues are unpredictable and may fluctuate from quarter to quarter due to changes in rates of customer acquisition and retention, the cyclical nature of the real estate industry, and other factors outside of our control. In addition, our expenses and revenues may fluctuate from quarter to quarter due to, among other factors, the timing of sales and marketing campaigns. Our reported net losses have included significant impairment charges due in part to the decline in our business and our lower market capitalization.

We believe that period-to-period comparisons of our past operating results may not be good indicators of our future performance and should not be relied on to predict the future performance of our stock price.

It is possible that in the future our operating results will not meet the expectations of investors, causing the market price of our common stock to decline. In the past, companies that have experienced decreases in the market price of their stock have been subject to securities class action litigation. A securities class action lawsuit against us could result in substantial costs and divert our management 's attention from other business concerns.

Our operating results may be adversely affected by the cyclical nature of the real estate industry.

Our business is dependent on the health of the residential real estate industry. The residential real estate market historically has been subject to economic cycles. An economic slowdown or recession, adverse tax policies, lower availability of credit, increased interest rates, or other factors that impact consumer confidence could decrease demand for residential real estate. For example, our revenues have declined over the past two years due in part to the national downturn in the real estate industry, including a decrease in the number of real estate professionals, and the economic slowdown. Trends in the real estate industry are unpredictable; therefore, our operating results, to the extent they reflect changes in the broader real estate industry, may continue to be subject to significant fluctuations.

We may be unable to compete successfully with our current or future competitors.

We operate in a highly competitive environment and expect that competition will continue to be intense. The barriers to entry in our industry are low, making it possible for current or new competitors to adopt certain aspects of our business model without great financial expense, thereby reducing our ability to differentiate our services. All of our services, including online lead generation, online prospect management, online real estate portal content and advertising, and customer coaching and training, are provided in part or in combination by other companies. One or more of these companies, or a new market entrant, could adopt a business model that competes directly with us, which could have an adverse impact on our business and operating results.

Table of Contents

Our current and potential competitors include:

Traditional Sellers of Advertising to Real Estate Professionals. We compete with traditional sellers of advertising, including local and regional newspapers, local magazines, and rack publications advertising homes for sale, for a share of the marketing dollars that residential real estate professionals spend to attract prospective home buyers and sellers. Real estate professionals may continue to view traditional advertising sources as the most effective means to reach prospective home buyers and sellers, leading to a lack of demand for our services. If we fail to persuade these customers to spend marketing dollars on our services, our business and operating results will suffer.

Internet Media Companies. We compete with large Internet media companies, such as AOL, Google, MSN and Yahoo! for real estate professionals' marketing dollars. Some of the large Internet media companies are currently developing enhanced search products, including search products that would allow a user to find real estate related search results in a specific city or geographic area. If their existing or new products become a cost-effective way for real estate professionals to generate leads, these products may become an attractive alternative to our services, which could decrease demand for our services or increase our online advertising costs. Additionally, these companies, on which we rely in part for our own advertising and lead generation needs, may develop or acquire products and services that compete directly with our services.

Online Companies Focused on Residential Real Estate. We compete with a variety of online marketing and lead generation companies that focus exclusively on the real estate industry. Such companies include Homes.com and Trader Publishing, Classified Ventures and HomeGain, RealEstateABC of InternetBrands, Reply.com, Zillow, Realtor.com, HomeStore and Move.com and IAC/InterActiveCorp, which includes Domania.com, ServiceMagic and RealEstate.com, all of which have established web sites and compete or may compete for real estate professionals' advertising expenditures. In addition, consolidation driven by online service providers involved in the real estate industry and Internet media companies could create more potent competitors. Increased consolidation among online service providers in the residential real estate industry could result in additional competitors that have significantly greater resources or greater brand recognition than we do, and that are able to provide a broader and more attractive suite of services to real estate professionals than we can.

Traditional Real Estate Brokerage Firms. Some real estate brokerage firms currently offer services similar to ours, and in the future these firms and other brokerage/franchise firms may become direct competitors. A significant percentage of residential real estate professionals are affiliated with large national or regional brokerage firms. If brokerage firms decide to provide their agents with a service offering or suite of service offerings similar to ours at a lower cost or free of charge, or if they attempt to restrict the ability of their agents to use our services, demand for our services by real estate professionals could decrease.

Discounted and Non-Traditional Real Estate Brokerage Firms. Some companies have extended their focus on online consumers to discount and non-traditional real estate brokerages. Companies such as Redfin, ZipRealty, and others offer similar consumer information services as well as discounted transaction fees to home buyers and sellers. While more directly competitive with traditional brokerage firms, these companies compete with us for the online consumers. Additionally, services such as ForSaleByOwner.com, FSBO.com, MLS4Owners.com, and LetsGoFizbo.com offer home sellers relatively low and often fixed fee services that compete with the traditional real estate brokerage firms and their agents, including those in our customer base. Success of these discounted and non-traditional brokerages could reduce traditional real estate professionals that we believe represent the majority of our customer base. Therefore, demand for our services by real estate professionals could decrease.

Many of our existing and potential competitors have longer operating histories, greater name recognition, greater technological capabilities or greater financial, sales, marketing and human resources than we do. These competitors could do any of the following, which could adversely impact our business and operating results:

develop services that are as effective as or superior to our services or that achieve greater market acceptance than do our services;

Table of Contents

devote greater resources to marketing or selling their services;

withstand price competition more successfully than we can;

make more attractive offers to existing and potential employees or independent contractors than we do;

more effectively negotiate third-party arrangements; and

take advantage of investments, acquisitions or other opportunities more readily than we can.

Any efforts to expand into new lines of business and offer new products may not be successful, or may take longer than expected to complete.

New initiatives we may pursue may not be successful or the anticipated benefits may take longer to realize than expected. Also, we may have little or no experience in these areas which may result in errors in the conception, structure or implementation of a strategy to take advantage of available opportunities. For example, we launched and acquired products targeted at mortgage professionals in 2005. Due to deteriorating market conditions, operational challenges, and increasing competition in this market, we did not meet our financial objectives and decided to discontinue or stop selling these products in January 2007.

In November 2007, we acquired substantially all of the assets of Realty Generator. Realty Generator provided services to real estate brokers, including a web site, a proprietary customer relationship management tool that enables communication with prospective customers, past clients and local real estate professionals, marketing materials and dedicated training and account management support. The systems are integrated such that the leads generated from the web site traffic are distributed to the agent teams, allowing brokers to monitor agent follow-through. We cannot assure you that the Realty Generator acquisition or any new products or other expansion efforts will be successful.

Any failure to increase the number of our customers would harm our business.

Growth of our business depends in large part on increasing the number of our customers. However, prospective customers may not be familiar with our services and may be accustomed to using traditional methods of advertising and marketing. To attract more customers, we must convince real estate professionals to spend a portion of their advertising and marketing budgets on our services. We cannot assure you that we will be successful in continuing to acquire customers or that we will be able to acquire them at the same rate that we have historically. If we reach the point at which we have attempted to sell our services to the majority of residential real estate professionals, our ability to further increase the number of customers could be limited. We may not know or be able to estimate when we have reached this point because we currently cannot reliably estimate the total number of residential real estate professionals that are actively engaged in the industry during any particular period and media reports indicate that the total number of real estate professionals are expected to decline because of negative trends in the real estate industry.

Any failure to retain customers could harm our business.

Our ability to retain our customers will depend on our ability to generate web site traffic and leads from prospective home buyers and sellers in quantities demanded by our customers, to enhance our existing services, develop new technologies that address the increasingly sophisticated and varied needs of customers, respond to technological advances and emerging industry standards and practices in a timely manner and on a cost effective basis. If we do not deliver the web site traffic or quantity and quality of leads expected by our customers, maintain adequate technical support levels, or continue to improve the ease of use, functionality and features of our prospect management systems, customer coaching and training offerings, or if customers are dissatisfied with the quality of the leads that we provide, our customers may choose not to extend their contracts for our services or may choose to terminate their contracts.

Table of Contents

Real estate professionals remain customers typically only for a limited period of time, and we have limited ability to predict how long they will remain customers.

The majority of our customer contracts have an initial term of twelve months, with automatic one-month extensions unless terminated by either party. Some customers have decided not to extend their contracts due to their inability to convert the leads we have provided into closed transactions, due to their dissatisfaction with our services, or their inability to pay for our services.

We cannot accurately predict how long real estate professionals will remain customers. We have experienced a decreased rate of customer retention since 2006, and if our retention rate continues to decline, our revenue will further decline and our business will suffer.

Acquisitions we may undertake may be unsuccessful and may divert our management's attention and consume significant resources.

We may selectively acquire other businesses, product lines or technologies. The successful execution of an acquisition strategy will depend on our ability to identify, negotiate, complete and integrate suitable acquisitions and, if necessary, to obtain satisfactory debt or equity financing. Acquisitions involve numerous risks, including:

difficulties in integrating the operations, technologies, and products of the acquired companies;

diversion of management's attention from normal daily operations of the business;

inability to maintain the key business relationships and the reputations of acquired businesses;

entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;

dependence on unfamiliar affiliates and partners;

insufficient revenues to offset increased expenses associated with acquisitions;

reduction or replacement of the sales of existing services by sales of products or services from acquired lines of business;

responsibility for the liabilities of acquired businesses;

inability to maintain our internal standards, controls, procedures and policies; and

potential loss of key employees of the acquired companies.

Acquisitions may not be successful, and if we are unable to effectively manage the risks described above or other risks we encounter, our business, operating results or financial condition may be negatively affected. For example, we acquired The Loan Page in October 2005 as part of our strategic objective to capitalize on the synergies between real estate and mortgage professionals. Due to deteriorating market conditions, operational challenges, and increasing competition in this market, we did not meet our financial objectives and decided in January 2007 to discontinue the semi-exclusive lead product we obtained as part of that acquisition. Our revenues were lower in 2007 due in part to this decision, and we recorded a significant impairment loss in 2006 related to that acquisition.

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Mergers and acquisitions are inherently risky, and we cannot assure you that our acquisitions will be successful. Failure to manage and successfully integrate acquired businesses could harm our business.

We may be required to take an impairment charge for goodwill or other long-lived asset, which could adversely impact our results of operations.

We have acquired certain portions of our business through acquisitions and may continue to pursue acquisitions of other companies as part of our long-term business strategy. In connection with prior acquisitions, we have accounted for the portion of the purchase price paid in excess of the fair value of the net assets acquired

Table of Contents

as goodwill and may be required to do so for future acquisitions. Additionally, we have invested in other long-lived assets designed to enhance our product offerings or assist in achieving our business plan for our company.

Under the applicable accounting rules, goodwill is not amortized and is carried on our books at its original value, subject to periodic review and evaluation for impairment, whereas intangible and fixed assets are amortized or depreciated over the life of the asset. Our common stock has recently been trading below our book value per share. As a result, we recorded an impairment charge to goodwill of \$4.9 million in 2008 and we expect to conduct further impairment reviews. If, as a result of our periodic review and evaluation of our goodwill and other long-lived assets for potential impairment, we determine that changes in the business itself, the economic environment including business valuation levels and trends, or the legislative or regulatory environment have adversely affected either the fair value of the business or the fair value of our assets, we may be required to take additional impairment charges. If market and economic conditions deteriorate further, this could increase the likelihood that we will need to record additional impairment charges.

While we have a plan to restore our business fundamentals to levels that would support our book value per share, we have no assurance that the plan will be achieved or that the market price of our common stock will increase to such levels in the foreseeable future. In that event, we may be required to take an impairment charge to the extent the carrying value of our net assets, including goodwill, exceed the fair value of our overall business, which could adversely impact our results of operations.

We rely almost entirely on advertising to generate leads for customers.

We rely heavily on advertising to attract consumers to our web sites and to generate traffic and leads. We advertise primarily through online media and television commercials.

Business Risks Associated with Online Advertising. We rely on online media to attract a significant percentage of the consumers visiting our web sites. Prices for online advertising have increased as a result of increased demand for advertising inventory, which has caused our expenses to increase and has resulted in lower margins. Our advertising contracts with online search engines are typically short-term. If one or more search engines on which we rely for advertising modifies or terminates its relationship with us, our expenses could further increase, the number of leads we generate could decrease and our revenues or margins could decline.

Business Risks Associated with Television Advertising. Television advertising rates depend on a number of factors, including the strength of the national economy and regional economies and the strength of certain industries that advertise frequently. Advertising rates are also subject to cyclical and seasonal fluctuations. If television advertising prices increase significantly or if the effectiveness of this advertising declines, in the absence of more efficient ways to generate leads, our marketing expenses will also increase, which would harm our results of operations.

If we are required to drive additional traffic for an increasing customer base or if the number of leads that we are required to deliver increases, we may be required to increase the levels of advertising to meet those requirements. Increasing our advertising expenditures may not result in increases in traffic or leads. If the effectiveness of our advertising declines, our business will suffer.

We may invest our cash in securities that become illiquid or that significantly decrease in value.

We may invest our cash in securities that are affected by adverse market conditions. Current market conditions and lack of investor confidence have led to reduced liquidity in securities that had previously been viewed as more liquid. As a result, our investments may decline in value, or we may not be able to access our cash equivalents or short-term investments when needed for strategic investment purposes or for operations and capital expenditures. Loss of cash value and inability to access funds would harm our business.

Table of Contents

We may in the future be subject to intellectual property rights claims.

Other companies, including our current or potential competitors, could make claims against us alleging infringement of their intellectual property rights. We have been subject to and expect to continue to be subject to, claims regarding alleged infringement by us of the patents, trademarks and other intellectual property rights of third parties. Any intellectual property claims, regardless of merit, could be time-consuming and expensive to litigate or settle, and could significantly divert management's attention from other business concerns. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all.

Our technologies and content may not be able to withstand third-party claims or rights against their use. If we were unable to successfully defend against such claims, we may have to pay damages, stop using the technology or content found to be in violation of a third party's rights, seek a license for the infringing technology or content, or develop alternative non-infringing technology or content. If we are required to obtain a license for the infringing technology or content, it may not be available on reasonable terms, if at all. In addition, developing alternative non-infringing technology or content could require significant effort and expense. If we cannot license or develop technology or content for any infringing aspects of our business, we may be forced to limit our service offerings. Any of these results could reduce our ability to compete effectively and harm our business.

Our trademarks are important to our business. Other companies may own, obtain or claim trademarks that could prevent, limit or interfere with our use of trademarks. If we were unable to use these trademarks, our business would be harmed and we would need to devote substantial resources toward developing different brand identities.

We have a limited operating history, our business model is evolving and our future operating results are unpredictable.

We were formed in May 1999 and have a limited history upon which to evaluate our operations and future prospects. There is little significant historical basis to assess how we will adapt our business model to competitive, economic or technological challenges. The ongoing downturn in the real estate markets provides some indication that our business may follow cyclical trends. Our business and prospects must be considered in light of the risks and uncertainties frequently encountered by companies in the earlier stages of development.

The success of our business model depends on our ability to attract new and retain existing customers and to efficiently generate traffic and leads. Any failure to execute this strategy could harm our business. Our business model is relatively new and is still evolving. Further, because our newer Vision-based products allow customers to adjust their advertising expenditure as business needs dictate, our revenue may become more variable. Additionally, because the margin on advertising revenue is less than that of software subscriptions, overall margins may be more variable and lower depending upon the mix of advertising revenue.

We may have to increase our expenses as we seek to expand our business and diversify our product mix. We cannot assure you that our strategies to return to growth will be successful or that we will return to profitability on a quarterly or annual basis.

Prospective home buyers and sellers may be reluctant to sign up for our services due to general privacy concerns.

Concern among consumers regarding our use of personal information collected on our web sites, such as email addresses, home addresses and geographic preferences, could keep them from using our web sites and thereby reduce the number of leads we generate. Industry-wide events or events with respect to our web sites, including misappropriation of third-party information, security breaches, or changes in industry standards, regulations or laws could deter people from using the Internet or our web sites to conduct transactions that involve the transmission of confidential information, which could harm our business.

Table of Contents

We rely on the collection, use and disclosure of personally identifiable information from prospective home buyers and sellers and from customers to conduct our business. We disclose our information collection and dissemination practices in a published privacy statement on our web sites, which we may modify from time to time to meet operational needs or changes in the law or industry best practices. We may be subject to legal claims, government action and damage to our reputation if we act or are perceived to be acting inconsistently with the terms of our privacy statement, customer expectations or the law. In addition, concern among real estate professionals or potential home buyers or sellers about our privacy practices could keep them from using our services and require us to alter our business practices or incur significant expenses to educate them about how we use this information. Further, changes in laws and regulations applicable to the privacy of personal information or in the interpretation or enforcement of such laws or regulations, could require us to modify our practices regarding use, collection, protection and disclosure of such information. Any required modifications could result in significant expenses to us.

The value of our services could be diminished if anti-spam software filters out emails we send.

Our prospect management systems includes a feature that automatically sends out personalized email messages to prospective home buyers and sellers on behalf of real estate professionals who are our customers. In addition, we send a large amount of email to real estate professionals as part of our customer acquisition strategy, some of which is unsolicited. In the past, anti-spam software used by Internet service providers and personal computer users has filtered out these email messages as unsolicited email, or spam. If this problem persists or becomes more pervasive, the value of our prospect management system to customers, and our ability to attract new customers, could be reduced, both of which would harm our business. In addition, it is possible that we may not currently or in the future fully comply with anti-spam legislation, and any failure to comply with such laws could result in penalties or damage our reputation.

Our HomePages, JustListed, Growth Leader, Team Leader and RealtyGenerator products rely on information from real estate multiple listing services provided by third parties that we do not control.

Our HomePages web site and the web sites we provide to our Growth Leader agent customers and our RealtyGenerator broker customers combine aerial maps and for sale home listings, including listings in most of the major metropolitan markets in the United States. In addition, in selected markets, including most of the major metropolitan markets in the United States, we provide JustListed, Growth Leader, Team Leader, and RealtyGenerator customers with a feature that allows them to automatically email their prospective clients information about newly available homes that meet the prospective clients' criteria. The for sale home listings information provided by our web sites and the automated email feature of services are supplied only in markets in which we or our broker customers have a relationship with the local multiple listing service (MLS), and in some cases, additionally with the agents' real estate broker. Listings must be sent manually by an agent customer in markets in which we do not have MLS relationships. Our agreements with MLSs to display property listings have short terms, or can be terminated by the MLSs, or, in some cases, the broker, with little notice. The success of our HomePages web site depends substantially on our continued ability to provide for sale home listings to consumers and to expand listings in markets in which it is not currently available. Our JustListed service depends in part on our continued ability to provide customers with an automated listing email tool and our ability to expand listings in markets in which it is not currently available. Our Growth Leader, Team Leader, and RealtyGenerator services depend on our ability to leverage our customers' access to MLS data. Our inability to supply this information will harm our business and operating results.

If we fail to comply with the various laws and regulations that govern the real estate industry, our business may be harmed.

Our business is governed by various federal, state and local laws and regulations governing the real estate industry, including the Real Estate Settlement Procedures Act (RESPA), the Fair Housing Act, state and local real estate broker licensing laws, federal and state laws prohibiting unfair and deceptive acts and practices, and

Table of Contents

federal and state advertising laws. We may not have always been and may not always be in compliance with each of these requirements. Failure to comply with these requirements may result in, among other things, revocation of required licenses, indemnification liability to contract counterparties, class action lawsuits, administrative enforcement actions and civil and criminal liability.

Due to the geographic scope of our operations and the nature of the services we provide, we may be required to obtain and maintain real estate brokerage licenses in certain states in which we operate. In connection with such licenses, we are required to designate individual licensed brokers of record. We cannot assure you that we are, and will remain at all times, in full compliance with state real estate licensing laws and regulations and we may be subject to fines or penalties in the event of any non-compliance. If in the future a state agency were to determine that we are required to obtain a real estate brokerage license in that state in order to receive payments or commissions from real estate professionals, or if we lose the services of a designated broker, we may be subject to fines or legal penalties or our business operations in that state may be suspended until we obtain the license or replace the designated broker. Any failure to comply with applicable laws and regulations may limit our ability to expand into new markets, offer new products or continue to operate in one or more of our current markets.

We may be limited in the way in which we market our business or generate revenue by federal law prohibiting referral fees in real estate transactions.

RESPA generally prohibits the payment or receipt of fees or any other thing of value for the referral of business related to a residential real estate settlement service, including real estate brokerage services. RESPA also prohibits fee shares or splits or unearned fees in connection with the provision of residential real estate settlement services. Notwithstanding these prohibitions, RESPA expressly permits payments pursuant to cooperative brokerage and referral arrangements or agreements between real estate agents and brokers. In addition, RESPA permits payments for goods or facilities furnished or for services actually performed, so long as those payments bear a reasonable relationship to the market value of the goods or facilities furnished or the services performed, excluding the value of any referrals that may be provided in connection with such goods, facilities or services. Failure to comply with RESPA may result in, among other things, administrative enforcement actions, class action lawsuits, and civil and criminal liability.

There has been limited guidance by the appropriate federal regulator or the courts regarding the applicability of RESPA to online marketing relationships for real estate or mortgage services, including those we provide. Nonetheless, RESPA may restrict our ability to enter into marketing and distribution arrangements with third parties, particularly to the extent that such arrangements may be characterized as involving payments for the referral of residential real estate settlement service business.

We rely on our sales force to sell our services and increase revenue. Failure to attract, motivate and retain qualified sales personnel may harm our business.

We have high productivity standards for our sales personnel, which in the past has resulted in relatively high turnover. This turnover has required us to expend a substantial amount of time and money to replace sales persons as we expand our business. Competition for qualified sales personnel is intense. Any failure to attract, retain and motivate a sufficient number of qualified sales personnel could impair our ability to generate new customers, which would harm our business.

Our business could be harmed by the actions of third parties over whom we have little or no control.

Prospective home buyers and sellers could make a claim against us for the actions of a real estate agent or broker customer over whom we have little or no control. We do not conduct any due diligence or background checks on new customers or seek information regarding their credentials. We may be liable for content provided

Table of Contents

by customers that is posted on or disseminated through our web sites. Our insurance may not be adequate to cover us for these liabilities, and, to the extent not covered by insurance, these liabilities could reduce our margins and harm our business.

Our brand could be harmed if customers do not provide quality service to prospective home buyers and sellers.

We rely on real estate professionals who are our customers of our JustListed and HouseValues products to promote our brand by providing high-quality service to prospective home buyers and sellers. We have little control over the activities of customers. If customers do not provide prospective home buyers and sellers with high-quality service, or if they use the functionality of our Market Leader system to send unwanted email to prospective home buyers or sellers, our brand value and our ability to generate leads may diminish.

Our operating results may be subject to seasonality and may vary significantly among quarters during a calendar year.

We are subject to seasonal fluctuations in advertising rates and lead generation. Changing consumer behavior at various times throughout the year affects our advertising expenses. Television advertising is generally more expensive in the fourth calendar quarter in connection with the holiday season.

While individual markets vary, real estate transaction activity tends to progressively increase from January through the summer months, and then gradually slows over the last quarter of the calendar year. The real estate industry generally experiences decreased activity toward the end of the year, which may result in slower lead generation and lower growth rates.

Throughout the history of our company, our quarterly revenue changes have masked seasonality effects. As a result, investors may be unable to predict our annual operating results based on a quarter-to-quarter comparison of our operating results as our business matures.

Third parties may copy or otherwise obtain and use our proprietary information without authorization or develop similar technology independently.

We currently rely on a combination of copyright, trademark and trade secret laws and confidentiality procedures to establish and protect our proprietary rights. If we fail to successfully enforce our intellectual property rights, the value of our services could be diminished and our business may suffer. Our success depends in large part on our proprietary technology and on our continuing use of our trademarks. We hold eleven registered trademarks and have sought registration for a number of additional trademarks. We have not sought registration for any copyrights. We have not been issued any patents but we have four pending patent applications. Accordingly, our intellectual property position is more vulnerable than it otherwise would be if it were protected by issued patents, copyrights or additional registered trademarks. We may not receive approval of our various trademark or patent applications, and any trademarks or patents we may be granted may be successfully challenged by others or invalidated. If our trademark or patent applications are not approved or if our trademarks or patents are invalidated, our use of them could be restricted unless we enter into arrangements with these third parties, which might not be possible on commercially reasonable terms, if at all.

We regard substantial elements of our web sites, software tools and applications and underlying technology as proprietary. Despite our precautionary measures, third parties may copy or otherwise obtain and use our proprietary information without authorization or may develop similar technology independently. We may not be able to detect such infringements or may lose any competitive advantage in the market before we do so. In addition, competitors may design around our technology or develop competing technologies substantially similar to ours. Unauthorized parties may attempt to disclose, obtain or use our technology. Our precautions may not prevent misappropriation of our intellectual property, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States. Any legal action that

Table of Contents

we may bring to protect our proprietary information could be unsuccessful and expensive and could divert management's attention from other business concerns. Legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and evolving, and we cannot assure you of the future viability or value of any of our proprietary rights.

Increased government regulation of the Internet and claims under state consumer protection laws could force us to change the manner in which we conduct our business or result in monetary fines or increased costs.

The adoption or modification of laws or regulations relating to the Internet could adversely affect the manner in which we currently conduct our business. In addition, the growth and development of the market for online commerce may lead to more stringent consumer protection laws that may impose additional burdens on us. Laws and regulations relating to communications or commerce over the Internet are becoming more prevalent. In addition, the interpretation and application of laws applicable to the Internet remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws, such as those governing intellectual property, privacy, libel and taxation, apply to the Internet. New laws and regulations, and changes in the interpretation of existing laws and regulations relating to the Internet, could lead to situations in which we are considered to operate or do business in states where customers conduct their business, resulting in potential claims or regulatory action. If we are required to comply with new laws or regulations or new interpretations of existing laws or regulations, or if we are unable to comply with these laws or regulations, our business could be harmed. Our practices may not have always been and may not always be in compliance with the requirements of Internet-related laws or regulations. Failure to comply with these laws and regulations could result in administrative enforcement actions, class action lawsuits, and civil and criminal liability.

We may be subject to claims under state consumer protection statutes if our customers are dissatisfied with the quality of our leads, customer service, training programs or contract cancellation policies. These claims could result in monetary fines or require us to change the manner in which we conduct our business, either of which could have a material adverse effect on our business and results of operations. Any of these types of claims, regardless of merit, could be time-consuming, could harm our reputation and could be expensive to litigate or settle. For example, in November 2007 we entered into a consent decree with the Washington State Attorney General's office and agreed to pay \$51,000 in costs and attorney's fees and to modify certain of our business practices and procedures.

Changes in government regulation of advertising and customer solicitation could affect our business.

We rely on various marketing channels, such as email and other means of electronic and telephonic communication, to reach real estate professionals and prospective home buyers and sellers and other consumers. The laws governing marketing and advertising continue to evolve and we may be subject to restrictions that limit our ability to continue to operate or expand our business and could result in legal claims or government action. For example, a federal statute places restrictions on unsolicited commercial email, commonly known as "spam," and imposes obligations upon senders of commercial email. Additionally, state laws governing falsity or deception with regard to email apply in addition to the federal statute. These federal and state laws impose significant civil and criminal penalties for violations. As the interpretation and enforcement of these laws evolve, they may impose burdens on our email marketing practices and affect features of our Customer Relationship Management systems and other services we offer or may offer. In addition, federal and state statutes prohibiting false or deceptive acts in commerce apply to Internet advertising, and some states have passed legislation regulating Internet advertising. The requirements of some of these laws, and their interpretation and enforcement by governmental authorities, are not clear and uniform. These laws may adversely affect our ability to market our services to real estate industry participants in a cost-effective manner and the violation of these laws may result in enforcement actions and penalties or damage our reputation.

Table of Contents

Our sales activities are or may in the future be subject to laws regulating telemarketing, which could subject us to penalties or limit our ability to market our services.

Both federal and state laws regulate the practice of telemarketing and placing other commercial telephone calls. All 50 states have enacted some form of telemarketing law, and federal statutes and regulations place restrictions on live, recorded and text telemarketing calls. In particular, the federal government and a significant number of states have implemented do not call lists. In addition, a number of states require telemarketers to register with the state and post a bond, regulate or prohibit automated systems and recorded messages, impose disclosure requirements upon sales calls and require written sales contracts for certain telemarketing transactions. We are subject to certain of these laws, and our failure to register in a jurisdiction where we are required to do so could subject us to penalties, limit our ability to market our services and hamper our ability to enforce contracts in these jurisdictions. Other violations of these laws may damage our reputation and may result in administrative enforcement, fines and civil or criminal penalties.

Any failure of our technology to perform satisfactorily could result in lost revenue, damage to our reputation and expenditure of significant resources.

Our technology is relatively new and complex and may in the future be subject to errors, defects or performance problems. In addition, we may encounter problems when we update our technology to expand and enhance its capabilities. Our technology may malfunction or suffer from defects that become apparent only after further use. Furthermore, our services could be rendered unreliable or be perceived as unreliable by customers or prospective home buyers and sellers. In such instances, we would need to expend significant resources to address these problems, and may nonetheless be unable to adequately remedy these problems. These problems could result in lost revenue and damage to our reputation.

Sustained or repeated system failures could significantly impair our operations and lead to customer dissatisfaction.

The continuous and uninterrupted performance of our systems is critical to our success. Our operations depend on our ability to protect these systems against damage from fire, power loss, water, earthquakes, telecommunications failures, viruses, vandalism and other malicious acts and similar unexpected adverse events. Customers and prospective home buyers and sellers may become dissatisfied by any system failure that interrupts our ability to provide our services to them.

Our services substantially depend on systems provided by third parties, over whom we have little control. Interruptions in our services could result from the failure of telecommunications providers and other third parties to provide the necessary data communications capacity in the time frame required. Our operations depend on our ability to maintain and protect our computer systems, located at our headquarters in Kirkland, Washington and at co-location facilities operated by third parties. We depend on these third-party providers of Internet communication services to provide continuous and uninterrupted service. We also depend on Internet service providers that provide access to our services. Any disruption in the Internet access provided by third-party providers or any failure of third-party providers to handle higher volumes of user traffic could harm our business.

Our customers, our reputation and our products may be harmed by security breaches.

Unauthorized computer programmers, or hackers, may attempt to penetrate our network security from time to time. A hacker who penetrates our network security could misappropriate personal information about our customers, proprietary information or cause interruptions in our services. We might be required to expend significant capital and resources to protect against, or to alleviate, problems caused by hackers. We also may not have a timely remedy against a hacker who is able to penetrate our network security. In addition to purposeful security breaches, the inadvertent transmission of computer viruses could adversely affect our systems and harm our business.

Table of Contents

Several payment card brands and an independent standards body have adopted security standards, compliance with which is required of all merchants and service providers that process, transmit or store certain types of personal information pertaining to credit card holders. If Market Leader fails to comply with these standards, it could be subject to fines and its ability to accept some or all credit cards could be restricted or suspended. Any such suspension or restriction would significantly affect our ability to collect fees from our customers, many of whom pay with a credit card. This would result in harm to our business.

Additionally, the majority of states and various federal regulatory bodies now require companies that maintain personal information about consumers to notify those consumers in the event of a breach of security in which certain types of personal information relating to those consumers is, or is suspected to have been, obtained by an unauthorized person. These laws vary in their scope and requirements, and some of them also require notice to governmental agencies and other third parties. In addition, other public disclosure laws may require that material security breaches be reported. If we are required to disclose a security breach to consumers or other third parties, our business and reputation could be harmed.

If we do not have access to additional funds on acceptable terms, we may be unable to continue to expand our business or service offerings.

To pursue our current and future business plans, we may choose to seek additional funding through public or private financings, including equity financings, and through other arrangements. Poor financial results, unanticipated expenses or unanticipated opportunities that require financial commitments could give rise to additional financing requirements sooner than we expect. However, financing may be unavailable when we need it or may not be available on acceptable terms. Recently, the general economic and capital market conditions in the United States and other parts of the world have deteriorated significantly and have adversely affected access to capital and increased the cost of capital. As a result, we may be unable to obtain financing and may be required to delay, scale back or eliminate expenditures for future strategic initiatives, operations or capital expenditures. If we raise additional funds by issuing equity or convertible debt securities, the percentage ownership of our existing shareholders would be reduced and these securities might have rights superior to those of our common stock.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None

ITEM 2: PROPERTIES

We lease approximately 65,000 square feet of office space for our corporate headquarters in Kirkland, Washington. The lease commenced in December 2004 and has a six-year term with defined periodic escalations. This initial lease term expires in 2010 with an option for a five-year renewal.

ITEM 3: LEGAL PROCEEDINGS

From time to time, we may become involved in litigation relating to claims arising from the ordinary course of our business, including actions relating to employment issues. We believe that there are no claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on us.

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

We did not submit any matters to a vote of our security holders during the fourth quarter of our fiscal year ended December 31, 2008.

Table of Contents**PART II****ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information for Common Stock**

Our common stock is traded on The Nasdaq Global Select Market under the symbol LEDR. The following table shows the high and low sales prices for our common stock as reported by The Nasdaq Global Select Market for the periods indicated.

Year	High	Low
Fiscal 2007 (ended December 31, 2007)		
First Quarter	\$ 5.89	\$ 4.37
Second Quarter	5.10	4.12
Third Quarter	4.85	3.55
Fourth Quarter	4.10	2.66
Fiscal 2008 (ended December 31, 2008)		
First Quarter	\$ 3.50	\$ 2.35
Second Quarter	3.22	2.26
Third Quarter	3.00	2.47
Fourth Quarter	2.80	1.50

Table of Contents

Stock Price Performance Graph

The following graph shows the total shareholder return from an investment of \$100 in cash on December 10, 2004 (the date on which our common stock was first traded on The Nasdaq Stock Market) through December 31, 2008 for (i) our common stock, (ii) the Nasdaq Composite Index, and (iii) the Russell 2000 Index. All values assume reinvestment of the full amount of all dividends. Please note that historic stock price performance is not necessarily indicative of future stock price performance.

Holdings

At March 2, 2009 there were approximately 23 holders of record of our common stock. This does not include the number of persons whose stock is in nominee or street name accounts through brokers.

Dividends

We have not paid cash dividends since 2003 when we were a private company. We do not anticipate paying cash dividends on our capital stock in the foreseeable future.

Stock Repurchases by Market Leader

The information required by this Item regarding repurchases of our common stock during the fourth quarter of 2008 is contained in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading Purchase and Retirement of Common Stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The information called for by this Item is contained in Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.

Table of Contents

Use of Proceeds

On December 9, 2004, the Securities and Exchange Commission declared effective our registration statement on Form S-1 (SEC File No. 333-118740) in connection with our initial public offering of common stock, which resulted in net proceeds to the company of \$56.1 million. Through December 31, 2008, we have used approximately \$41.8 million of the net proceeds from our initial public offering to purchase property and equipment, intangible assets, and to complete acquisitions, including related earn-out payments. The remaining proceeds have been invested in money market funds that invest in high quality, short-term U.S. Government obligations and repurchase agreements collateralized by U.S. Government obligations, U.S. Treasury Securities and FDIC-insured certificates of deposit. Substantially all of our money market funds are covered by the Temporary Guarantee Program for Money Market Funds provided by the U.S. Treasury as announced in September 2008 for investments in money market funds as of September 19, 2008. Our current and planned use of the proceeds does not represent a material change from the use of proceeds described in the prospectus relating to the Registration Statement.

Table of Contents

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. This discussion and other parts of this Annual Report on Form 10-K contain forward-looking statements relating to our anticipated plans, products, services, and financial performance. The words believe, expect, anticipate, intend and similar expressions identify forward-looking statements, but their absence does not mean the statement is not forward looking. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those anticipated in the forward looking statements. Factors that could affect our actual results include, but are not limited, to our ability to retain and increase our customer base, to respond to competitive threats and real estate market conditions, to manage lead generation and other costs, to develop new products, to expand into new lines of business, and those discussed in Risk Factors contained in Item 1A. of this Annual Report and in our other SEC filings. Given these risks and uncertainties, you should not place undue reliance on these forward looking statements. The forward looking statements are made as of the date of this report and, except as required by law, we assume no obligation to update any such statements to reflect events or circumstances after the date hereof.

Overview

Market Leader provides real estate professionals with the tools and services they need to manage and grow their real estate businesses. We have been an innovator in internet-based marketing services for real estate professionals since the company's inception in 1999. We recently began to shift our business model from its original lead generation model and toward offerings that combine software-as-a-service with access to industry-leading media buying and lead generation services. Traditional lead generation products continued to account for the majority of customer relationships and revenue in 2008.

In November 2008 we introduced Growth Leader, a personalized website and proprietary customer relationship management tool for real estate agents, as well as a related product for agent teams, Team Leader. Together with RealtyGenerator, a turnkey lead generation and lead management system for real estate brokerage companies that we acquired in 2007, these product offerings constitute the new products that support the shift in our business model. These products feature Vision, a personalized website and proprietary customer relationship management tool for real estate agents, and include access to industry-leading media buying and lead generation services to help them attract new clients and promote themselves throughout their community.

Additionally, Market Leader provides consumers with free access to the information and tools they need throughout the home buying and selling process. Our nationwide consumer web sites include: JustListed.com, a service that notifies home buyers as soon as new homes hit the market; HouseValues.com, a service that provides home sellers with market valuations of their current homes; and HomePages.com, a real estate portal that enables consumers to see all the home listings in their area, view detailed neighborhood and school data, compare recent home sales, find local real estate agents, and find the value of their own homes. Our new family of products also provides consumers with free access to similar information through localized web sites that we operate on behalf of our real estate professional customers.

How We Generate Revenues

We generate the majority of our revenues from the services we provide to real estate agents and brokers.

Growth Leader, Team Leader, and Realty Generator: We charge real estate professionals a one-time set-up fee and a monthly fixed fee for services, which include a personalized web site, the Vision CRM tool, marketing materials, training and support. We also generate revenue by placing online advertising for our real estate professional customers, to drive traffic and leads to their web site. We acquired the RealtyGenerator product in November 2007 and launched the Growth Leader and Team Leader products in late 2008.

Table of Contents

HouseValues: We charge real estate agents a one-time set-up fee and a monthly fixed fee for a monthly bundle of exclusive leads on prospective home sellers, the Market Leader CRM tool, training and coaching programs.

JustListed: Like the HouseValues product, we charge real estate agents a one-time set-up fee and a monthly fixed fee for a monthly bundle of exclusive leads on prospective home buyers, the Market Leader CRM tool, training and coaching programs.

HomePages/Showcase: We charged a monthly fixed fee for Showcase, an online marketing subscription to real estate professionals that allowed them to feature selected listings on our HomePages web site.

We generally provide our services under terms of a one-year agreement that then continues on a month-to-month basis until terminated. Growth Leader customers have the option of selecting agreements with a short-term commitment and higher monthly fees.

All initial set-up fees are recognized as revenue on a pro rata basis over the estimated customer life or the life of the contract, whichever is longer. The remainder of our revenue is derived from monthly fees for stand-alone use of our Market Leader CRM system, advertising income and other marketing services, sales of excess leads and traffic, and the collection of contract termination fees, none of which materially affects our operating results. These sources of revenues in the aggregate were less than 5% of our revenues for all annual periods presented in this Annual Report on Form 10-K.

Our Expenses

The largest components of our expenses are personnel and marketing costs. Personnel expenses consist of salaries, benefits and incentive compensation for our employees, including commissions for sales people. These expenses are categorized in our statements of operations based on each employee's principal function. Marketing expenses consist of programs designed to attract consumers to our web sites and to promote our services to potential customers, primarily residential real estate agents. The largest component of our marketing expenses consists of advertising designed to increase the number of potential home buyers and sellers who visit our web sites.

The Impact of Seasonality and Cyclicity

The residential real estate and advertising markets are influenced by seasonality as well as overall economic cycles.

Seasonality

While individual geographic markets vary, real estate transaction activity tends to progressively increase from January through the summer months, and then gradually slows over the last quarter of the calendar year. As a result, we may experience slower lead generation and customer adoption toward the end of the year. We are also subject to seasonal fluctuations in advertising rates and lead generation. Television advertising costs are generally more expensive in the second and fourth calendar quarters in connection with network premieres and finales and the holiday season.

Cyclicity

The success of our business depends on the health of the residential real estate market, which historically has been subject to economic cycles. Following a period of sustained growth, the residential real estate market has entered a down cycle. Housing prices have declined and residential real estate transactions have slowed significantly in major markets that are important to our business.

Table of Contents

Typically, during downturns in housing markets, demand for residential real estate decreases and demand for the services of real estate professionals similarly decreases. In these markets, the number of real estate professionals may decline significantly as less successful agents and brokers leave the profession and fewer people seek to become real estate professionals. A decline in the number of customers or a decrease in the amount they wish to spend on services such as ours will negatively impact our revenue and increase our customer acquisition costs. In addition, the decline in the demand for housing could increase our lead generation costs and adversely impact our margins.

Trends in the real estate market are unpredictable; therefore our operating results, to the extent they reflect changes in the broader real estate industry, may be subject to significant fluctuation.

Current Year Overview

Revenue from continuing operations was \$38.4 million for the year, a 36% decline compared to 2007. Revenue decreased in 2008 due primarily to a 32% decrease in average customer count and a 5% decrease in average revenue per customer. The related declines in revenue were partially offset by the addition of RealtyGenerator revenues which were \$5.7 million in 2008 compared to \$0.9 million in 2007.

We incurred a net loss from continuing operations of \$13.1 million for the year compared to net loss from continuing operations of \$12.6 million in 2007. Our net loss from continuing operations in 2008 includes noncash charges of \$4.9 million related to the full impairment of goodwill and \$1.3 million related to the other-than-temporary impairment of our investment in ActiveRain. Our net loss from continuing operations in 2007 includes noncash charges of \$6.1 million related to our write-down of goodwill and long-lived assets and \$3.1 million related to the application of a full valuation allowance to our net deferred tax assets. These charges in 2007 and 2008 reflect our history of operating losses, difficult market conditions in the residential real estate market that impacts our near term forecasted operations and cash flows, and the decline in our stock price. See further discussion of these items in Note 3, 8, 10 and 13 of the Notes to Consolidated Financial Statements.

Our operating results for the year continue to reflect the broader real estate market conditions, which remain challenging and we expect will be further affected by crisis conditions in the global banking, credit and mortgage-lending markets. We believe these broader economic trends negatively impact consumers' ability and willingness to engage in real estate transactions, the commissions earned by real estate professionals, and the marketing investments that they are able and willing to make.

Over the past several quarters, we have adapted to changing market conditions by better aligning expenses with expected revenue in an effort to avoid non-strategic use of cash. We believe that selective acquisitions, share repurchases and continued investments in our business can all potentially be strategic uses of cash. Because we cannot be certain of the depth and duration of the downturn amid the unprecedented economic uncertainty we are facing in at least the near-term, we believe that cash has significant option value, and preserving that value will continue to be prudent until we have greater visibility in the economy and our business. That said, we believe that the potential benefits of investment in the business have been enhanced by our recent introduction of innovative products, and we expect to gain share of mind and market by beginning to present our new solutions ahead of the inflection point of the real estate industry downturn.

Significant Business Developments

The following significant business developments affect the comparability of our financial statements:

Purchase of Realty Generator. On November 1, 2007, we completed our acquisition of substantially all of the assets of Realty Generator, LLC and a related entity for approximately \$11.2 million in cash and assumed liabilities, including incentives based on the post-acquisition performance of the acquired assets. We accounted for this acquisition as a business combination and have included Realty Generator's results of operations from the transaction date forward.

Table of Contents

Investment in ActiveRain. On November 16, 2007, we acquired 32.4% of the outstanding voting stock of ActiveRain Real Estate Network for \$2.75 million. During September 2008 ActiveRain's redemption of founder shares increased our ownership percentage to 33.3%. ActiveRain is a professional community and social networking platform serving the real estate community. ActiveRain has grown its membership over the past two years to more than 135,000 real estate professionals. Our investment in ActiveRain is recorded using the equity method of accounting which requires that we record our proportionate share of their net loss adjusted for any difference between our cost and the underlying equity in their net assets at the acquisition date.

As broader market conditions have contributed to the decline in our revenue, we have taken a series of actions since January 2007 to significantly reduce our cost structure to align with our revenue trends.

Reduction in Workforce. In January 2008, we reduced our workforce by approximately 45 employees. We recorded cash severance charges of approximately \$0.6 million and additional accelerated vesting charges of \$0.2 million related to equity compensation in the first quarter of 2008.

Closure of the Yakima Facility. On July 31, 2007, we implemented a plan to reduce operating expenses, including the closure of our Yakima, Washington satellite center. In connection with this plan, we reduced our workforce by approximately 100 employees. In the third quarter of 2007, we recorded severance and related charges of \$0.5 million. At the same time, we recognized an impairment charge of \$1.2 million to reduce the Yakima leasehold improvements to their estimated fair value less estimated selling costs.

In January 2008, we terminated our lease for the Yakima facility and in a related transaction, assigned our purchase option for the Yakima facility and its remaining assets to a third party for net cash of \$1.2 million. We recorded a gain of \$0.8 million on this transaction in the first quarter of 2008.

Discontinued Mortgage Operations. In January 2007, we announced our exit from the mortgage lead generation business and our intention to scale back or eliminate initiatives that were not critical to our real estate agent customers. These activities resulted in an overall reduction of our workforce by approximately 60 employees. In connection with the discontinuation of our mortgage operations and the reduction in workforce, we paid payroll and related costs of approximately \$0.5 million in 2007 and incurred accelerated stock compensation expense estimated of approximately \$0.5 million.

Results of Operations

Our discussion of operating results addresses results from continuing operations. Our former mortgage business is presented in our financial statements as discontinued operations. The following table presents our historical operating results for continuing operations as a percentage of revenues for the periods indicated:

	Years Ended December 31,		
	2008	2007	2006
Revenues	100%	100%	100%
Expenses:			
Sales and marketing	65	66	65
Technology and product development	17	15	13
General and administrative	24	20	14
Gain on sale of fixed assets	(2)		
Impairment of goodwill and long-lived assets	13	10	
Depreciation and amortization of property and equipment	11	10	6
Amortization of acquired intangible assets	5	1	1
Total expenses	132	122	99
(Loss) income from continuing operations	(32)	(22)	1

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Equity in loss of unconsolidated subsidiary	(5)		
Interest income and expense, net	3	5	3
Income tax expense		4	
Net (loss) income from continuing operations	(34%)	(21%)	4%

Table of Contents**Comparison of Years Ended December 31, 2008 and December 31, 2007***Revenues*

	Years Ended December 31,			Percent Change
	2008	2007 (dollars in thousands)	Decrease	
Revenues	\$ 38,368	\$ 59,808	\$ (21,440)	(36%)

2008 revenues decreased 36% from last year. Our average customer count decreased by 32% and our average revenue per customer declined by 5%. The cyclical downturn in the real estate industry, reflected in significant declines in existing home sales as well as housing prices over the past two years, has caused double-digit declines in the total amount of real estate commissions earned for the third year in a row according to Real Trends. We believe this downturn has negatively impacted the ability of real estate professionals to pay for marketing services and other lead generation costs, which has resulted in lower customer acquisition this year and a continued decline in our customer base. We nonetheless improved our customer retention rates in 2008 compared to 2007 rates by working with customers to manage, and in many cases, reduce their monthly marketing commitment, which has resulted in lower average revenue per customer.

The revenue decline was partially offset by the increased contribution from our RealtyGenerator product revenue which was \$5.7 million in 2008 and \$0.9 million for the two months that we had the product in 2007. Consistent with our goal of growing the product revenue, we added sales resources dedicated to RealtyGenerator in 2008, and despite difficult market conditions, increased revenue from this product by 4% in 2008 compared to the pro forma full year revenue amount of \$5.5 million in 2007.

More detailed information about the sequential change in customers and average revenue per customer is included in the Key Operational Metrics section of Management's Discussion and Analysis.

In 2009, we anticipate that revenues from our new Vision family of products RealtyGenerator, Team Leader and Growth Leader will become an increasing part of our revenue base. Based on our experience with the RealtyGenerator product, we believe these additional product offerings will help us to achieve better customer retention rates and improved operating results over time. However, we expect the ongoing challenges in the real estate market, as well as the broader negative economic trends will continue to impact real estate professionals and their ability to fund marketing expenditures. Therefore, we expect our current revenue trend to continue for at least the first half of 2009. Given the expected shift in our product mix and lower customer base, we expect that the quarterly declines will moderate later in the year and this will create an opportunity for us to build on this baseline and return the business to growth as economic conditions improve.

Sales and Marketing

	Years Ended December 31,			Percent Change
	2008	2007 (dollars in thousands)	Decrease	
Sales and marketing expense	\$ 24,978	\$ 39,453	\$ (14,475)	(37%)

Sales and marketing expenses consist primarily of online and television advertising, as well as salaries, commissions and related expenses for our sales and marketing staff. Other expenses include credit card fees and corporate marketing and communications expenses.

Sales and marketing expense decreased in absolute dollars and decreased slightly as a percentage of revenue during 2008 when compared to 2007, primarily due to reduced advertising costs (lead and traffic generation

Table of Contents

costs), as well as a reduction in payroll and related costs. The decrease in advertising costs was consistent with our decrease in revenues and remained consistent as a percentage of revenue in 2008 compared to 2007. Payroll and related costs decreased in 2008 due to decreased average headcount, as we realigned our cost structure to our projected revenues. Sales and marketing headcount decreased to 110 at December 31, 2008, which compares to 153 at December 31, 2007.

In 2009, we expect sales and marketing expense to decrease due to a lower advertising expense consistent with reduced revenue and because of lower average staffing levels compared to 2008. Given the expected shift in our product mix to our Vision-based products, we anticipate advertising costs will become an increased percentage of revenue, driving an overall increase in sales and marketing expenses as a percentage of revenue during 2009.

Technology and Product Development

	Years Ended December 31,			Percent Change
	2008	2007 (dollars in thousands)	Decrease	
Technology and product development expense	\$ 6,409	\$ 9,114	\$ (2,705)	(30%)

Technology and product development expenses consist primarily of salaries and related expenses for employees responsible for customer and internal technology services. Also included are license fees, maintenance costs, Internet and phone connectivity and hosting costs.

Technology and product development expense decreased in absolute dollars for 2008 as compared to 2007, as we reduced the number of employees to bring our cost structure into alignment with our decreasing revenues. In addition, communications and connectivity expenses decreased due to the closure of Yakima office during 2007. Technology and product development headcount decreased to 28 at December 31, 2008, which compares to 41 at December 31, 2007. Despite the decline in absolute dollars, these costs increased as a percentage of revenue due to the year-over-year decline in revenues.

In 2009, we expect the level of technology and product development costs to remain fairly consistent with the quarterly average in 2008, but to increase as a percentage of lower revenue, as we continue to build out the infrastructure and enhance our new Vision-based products and to develop new product offerings on the Vision platform.

General and Administrative

	Years Ended December 31,			Percent Change
	2008	2007 (dollars in thousands)	Decrease	
General and administrative expense	\$ 9,245	\$ 12,166	\$ (2,921)	(24%)

General and administrative expenses consist primarily of salaries and related expenses for executive, accounting, and human resources personnel. These costs also include audit and legal fees, business consulting fees, business insurance premiums, rent and related expenses.

General and administrative expenses decreased as we reduced the number of employees and reduced other expenses such as facility costs, recruiting and business insurance to bring our cost structure into alignment with our decreasing revenues. Despite the decline in absolute dollars, these costs increased as a percentage of revenue due to the year-over-year decline in revenues. Headcount decreased to 22 at December 31, 2008 from 32 at December 31, 2007.

Table of Contents

In 2009, we expect general and administrative expenses to decrease modestly in total dollars as we manage operational costs, but to increase as a percentage of revenue on lower expected revenues.

Impairment of Goodwill and Long-Lived Assets

Based on our history of operating losses and the decline in the economy and in the market value of our common stock, we evaluated the recoverability of our goodwill and long-lived assets and assessed potential impairment using market prices and other available information. As a result we recorded an impairment charge to goodwill of \$4.9 million.

During 2007, we evaluated the recoverability of our goodwill and long-lived assets and assessed potential impairment using similar market information as in 2008. As a result we recorded an impairment charge to goodwill of \$3.6 million and an impairment charge of \$0.8 million related to other long-lived assets. In addition, during the year we determined that certain internally developed software projects had limited future benefits, resulting in impairment charges totaling \$0.6 million.

In July 2007, we closed our satellite sales and service center in Yakima, Washington, and recognized an impairment charge of \$1.2 million to reduce the related leasehold improvements to their estimated fair value less selling costs.

Depreciation and Amortization of Property and Equipment

Depreciation and amortization of property and equipment decreased year-over-year primarily due to the lower asset values resulting from impairment charges taken against our capital assets during 2007 and the closure of our Yakima facility during the third quarter of 2007.

We expect a net decrease in depreciation expense in 2009 because a portion of our asset base becomes fully depreciated, which is expected to more than offset depreciation for new additions.

Amortization of Acquired Intangible Assets

Amortization of intangible assets increased for 2008 when compared to 2007, due to the new intangible assets related to the Realty Generator acquisition in the fourth quarter of 2007.

Equity in Loss of Unconsolidated Subsidiary

Our equity in the losses of ActiveRain increased in 2008 when compared to 2007, primarily due to the partial year of ownership in 2007, as well as an impairment charge of \$1.3 million that was recorded in 2008. The other-than-temporary impairment was the result of an evaluation of the estimated fair value of our investment at December 31, 2008 that indicated a fair value that was less than its carrying value, and that the impairment was other than temporary.

Interest Income and expense, net

Interest income decreased in 2008 when compared to 2007 due to decreased rates of return on investments as well as a reduction in the amount of cash, cash equivalents and short-term investments held. Early in 2008, we modified our investment strategy to preserve the security and liquidity of our funds, which has resulted in significantly lower rates of return. At December 31, 2008, we held \$58.6 million in cash, cash equivalents and short-term investments, compared to \$62.9 million in cash, cash equivalents and short-term investments at December 31, 2007.

Table of Contents*Income Taxes*

Our effective tax rate for continuing operations was essentially nil for 2008, compared to (18.4%) for 2007. Our effective tax rate was negative in 2007 due to our establishment of a valuation allowance for our deferred tax assets at December 31, 2007.

Substantially all of our deferred tax assets and liabilities are expected to reverse over the next five years, except for the net operating losses. We believe that based on the decline in the national real estate market, our recent history of operating losses and the lack of carryback periods, it is more likely than not that we will be unable to generate sufficient taxable income to realize our deferred tax assets. Accordingly, a full valuation allowance has been recorded against our deferred tax assets.

Comparison of Years Ended December 31, 2007 and December 31, 2006

The following discussion of operating results addresses results from continuing operations. Our former mortgage business is presented in our financial statements as discontinued operations.

Revenues

	Years Ended December 31,			Percent Change
	2007	2006 (dollars in thousands)	Decrease	
Revenues	\$ 59,808	\$ 85,824	\$ (26,016)	(30%)

Overall, our revenues for 2007 decreased 30% from 2006. The decrease in revenues is due primarily to a 36% decrease in our average customer count and an 8% decline in average revenue per customer. These decreases were partially offset by the addition of RealtyGenerator revenue in the fourth quarter of 2007.

Sales and Marketing

	Years Ended December 31,			Percent Change
	2007	2006 (dollars in thousands)	Decrease	
Sales and marketing expense	\$ 39,453	\$ 55,476	\$ (16,023)	(29%)

Sales and marketing expense decreased in total but increased slightly as a percentage of revenue during 2007 when compared to 2006, primarily due to reduced lead generation costs and payroll and related costs. The decrease in lead generation costs was consistent with our decrease in revenues and remained consistent as a percentage of revenue in 2007 compared to 2006. Payroll and related costs decreased in 2007 due to decreased average headcount, as we realigned our cost structure to our projected revenues. Headcount for 2007 decreased to 153 at December 31, 2007, which compares to 399 at December 31, 2006.

Technology and Product Development

	Years Ended December 31,			Percent Change
	2007	2006 (dollars in thousands)	Decrease	
Technology and product development expense	\$ 9,114	\$ 11,375	\$ (2,261)	(20%)

Table of Contents

Technology and product development expense decreased in absolute dollars but increased modestly as a percentage of revenue for 2007 as compared to 2006, as we reduced the number of employees and contractors to bring our cost structure into alignment with our decreasing revenues.

General and Administrative

	Years Ended December 31,			Percent Change
	2007	2006 (dollars in thousands)	Decrease	
General and administrative expense	\$ 12,166	\$ 12,305	\$ (139)	(1%)

General and administrative expenses were consistent year over year, but increased as a percentage of revenues due to our lower revenue base.

Depreciation and Amortization of Property and Equipment

Depreciation and amortization of property and equipment increased year-over-year. Accelerated depreciation recognized for the early retirement of the technology investment in HomePages in the first quarter of 2007 was later partially offset by the release of the updated product in April 2007.

Amortization of Acquired Intangible Assets

Amortization of intangible assets increased for 2007 when compared to 2006, due to the new intangible assets related to the Realty Generator acquisition in the fourth quarter of 2007. This increase was partially offset by the early retirement of a mapping technology asset in March 2007.

Interest Income and expense, net

Interest income increased in 2007 when compared to 2006 due to increased rates of return on investments. Overall cash and investment balances declined significantly in the fourth quarter of 2007 as we acquired Realty Generator and invested in ActiveRain. At December 31, 2007, we held \$62.9 million in cash, cash equivalents and short-term investments, compared to \$77.8 million at December 31, 2006.

Income Taxes

We recognized income tax expense for 2007 as a result of recording a full valuation allowance against our deferred tax assets, which was partially offset by a tax benefit resulting from our ability to carry back current year tax losses and recover prior taxes paid.

Table of Contents**Quarterly Consolidated Statements of Operations**

The following tables present the unaudited operational data related to our continuing operations for the eight quarters ended December 31, 2008. This quarterly information has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of our management, reflects all adjustments necessary for a fair representation of the information for the periods presented. This data should be read in conjunction with our audited consolidated financial statements and the related notes included in this filing. Operating results for any quarter apply to that quarter only and are not necessarily indicative of results for any future period.

	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007
(in thousands)								
Continuing Operations Data, in thousands:								
Revenues	\$ 7,783	\$ 9,258	\$ 10,131	\$ 11,196	\$ 12,189	\$ 13,797	\$ 15,984	\$ 17,838
Expenses:								
Sales and marketing	5,464	5,842	6,242	7,430	7,879	8,946	10,241	12,387
Technology and product development	1,536	1,424	1,491	1,958	1,694	2,123	2,507	2,790
General and administrative	1,987	2,320	2,232	2,706	2,735	2,864	3,015	3,552
Impairment of goodwill and long-lived assets	4,883				4,916	1,200		
Gain on sale of fixed assets				(791)				
Depreciation and amortization of property and equipment	1,032	1,040	1,015	959	1,064	1,170	1,245	2,155
Amortization of acquired intangible assets	454	491	492	492	333	16	16	395
Total expenses	15,356	11,117	11,472	12,754	18,621	16,319	17,024	21,279
Loss from operations	(7,573)	(1,859)	(1,341)	(1,558)	(6,432)	(2,522)	(1,040)	(3,441)
Equity in loss of unconsolidated subsidiary	(1,461)	(207)	(185)	(151)	(162)			
Interest income	128	289	289	519	762	883	751	586
Loss before income tax	(8,906)	(1,777)	(1,237)	(1,190)	(5,832)	(1,639)	(289)	(2,855)
Income tax (benefit) expense	(58)	31	34	2	4,041	(761)	(51)	(1,275)
Net loss from continuing operations	\$ (8,848)	\$ (1,808)	\$ (1,271)	\$ (1,192)	\$ (9,873)	\$ (878)	\$ (238)	\$ (1,580)
Net income (loss) from discontinued operations	\$	\$	\$	\$	\$ 37	\$ 74	\$ 119	\$ (36)
Net loss	\$ (8,848)	\$ (1,808)	\$ (1,271)	\$ (1,192)	\$ (9,836)	\$ (804)	\$ (119)	\$ (1,616)
Net loss per share basic								
Net loss from continuing operations per share basic	\$ (0.37)	\$ (0.07)	\$ (0.05)	\$ (0.05)	\$ (0.40)	\$ (0.04)	\$ (0.01)	\$ (0.06)
Net loss from discontinued operations per share basic	\$	\$	\$	\$	\$	\$	\$	\$
Net loss per share basic	\$ (0.37)	\$ (0.07)	\$ (0.05)	\$ (0.05)	\$ (0.40)	\$ (0.03)	\$	\$ (0.07)
Net loss per share diluted								
Net loss from continuing operations per share diluted	\$ (0.37)	\$ (0.07)	\$ (0.05)	\$ (0.05)	\$ (0.40)	\$ (0.04)	\$ (0.01)	\$ (0.06)
Net (loss) income from discontinued operations per share diluted	\$	\$	\$	\$	\$	\$	\$	\$
Net loss per share diluted	\$ (0.37)	\$ (0.07)	\$ (0.05)	\$ (0.05)	\$ (0.40)	\$ (0.03)	\$	\$ (0.07)

Continuing Operations Data as a Percentage of Revenue:

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Revenues	100%	100%	100%	100%	100%	100%	100%	100%
Expenses:								
Sales and marketing	70	63	62	66	65	65	64	69
Technology and product development	20	15	15	17	14	15	16	16
General and administrative	26	25	22	24	22	21	19	20
Impairment of goodwill and long-lived assets	63				40	9		
Gain on sale of fixed assets				(7)				
Depreciation and amortization of property and equipment	13	11	10	9	9	8	7	12
Amortization of acquired intangible assets	6	5	5	4	3			2
Total expenses	197	120	113	114	153	118	106	119
Loss from operations	(97)	(20)	(13)	(14)	(53)	(18)	(6)	(19)
Equity in loss of unconsolidated subsidiary	(19)	(2)	(2)	(1)	(1)			
Interest income	2	3	3	5	6	6	5	3
Loss before income tax expense	(114)	(19)	(12)	(11)	(48)	(12)	(1)	(16)
Income tax (benefit) expense	1	(2)	(3)		33	(6)		(7)
Net loss from continuing operations	(114%)	(20%)	(13%)	(11%)	(81%)	(6%)	(1%)	(9%)

Table of Contents**Comparison of the Quarters Ended December 31, 2008 and September 30, 2008**

Revenue in the fourth quarter of 2008 decreased 16% from the third quarter of 2008. We experienced a 10% decrease in average core customer count during the fourth quarter, while average monthly revenue per core customer decreased 6%. More information about the sequential change in revenue and customers is included in the Key Operational Metrics section of Management's Discussion and Analysis.

Fourth quarter 2008 sales and marketing expense decreased \$0.4 million from the third quarter of 2008 but increased as a percentage of revenue. This decrease in expense primarily resulted from reduced online and television advertising in fourth quarter of 2008. Consumer lead generation costs are typically higher in the fourth quarter due to seasonal increases.

When comparing the fourth quarter of 2008 with the third quarter of 2008, technology and product development expense increased about \$0.1 million and increased slightly as a percentage of revenue. The increase in expense was primarily due to work performed by outside vendors to evaluate and study possible enhancements to our current products.

Fourth quarter 2008 general and administrative expenses decreased about \$0.3 million from the third quarter of 2008 and remained consistent as a percentage of revenue primarily due to reduced payroll and related costs.

During the fourth quarter of 2008, we evaluated the recoverability of our goodwill and long-lived assets and assessed potential impairment using market prices and other available information. As a result we recorded an impairment charge to goodwill of \$4.9 million. See Note 10 of the Notes to Consolidated Financial Statements for further discussion.

During the fourth quarter of 2008, we assessed the fair value of our investment in ActiveRain and determined that it exceeded our carrying value at December 31, 2008 and as a result recorded a \$1.3 million impairment charge. See Note 3 of the Notes to Consolidated Financial Statements for further discussion.

Key Operational Metrics

The following table presents operational data related to our real estate products for the eight quarters ended December 31, 2008:

	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007
Operational Data:								
Components of revenue (in thousands):								
Real estate professional revenues (1)	\$ 7,732	\$ 9,181	\$ 10,063	\$ 11,118	\$ 12,151	\$ 13,756	\$ 15,883	\$ 17,748
Other revenues (2)	51	77	68	78	38	41	101	90
Total revenues	\$ 7,783	\$ 9,258	\$ 10,131	\$ 11,196	\$ 12,189	\$ 13,797	\$ 15,984	\$ 17,838
Real estate professional customers, end of period (3)								
Average monthly retention rate (4)	92.2%	93.6%	93.6%	92.5%	91.4%	91.2%	91.4%	90.3%
Average real estate professional customers in the quarter (5)								
Average monthly revenue per customer (6)	\$ 330	\$ 351	\$ 360	\$ 370	\$ 363	\$ 364	\$ 378	\$ 389

- (1) Real estate professional revenues consist of all revenue generated from our real estate professional customers, primarily for our HouseValues, JustListed, Growth Leader, Team Leader, RealtyGenerator, HomePages, and Market Leader CRM products.
- (2) Other revenues consist primarily of miscellaneous revenue streams that are not core to our product offerings.

Table of Contents

- (3) Real estate professional customers consist of real estate agents subscribing to our HouseValues, JustListed, Growth Leader, Team Leader, HomePages, and Market Leader CRM products and real estate brokers subscribing to our RealtyGenerator product.
- (4) One minus our average monthly churn rate equates to our average monthly retention rate. Average monthly customer churn is calculated by dividing the number of customers who canceled during the quarter by the average customers in the quarter, divided by the number of months in the quarter. Other companies may calculate churn and retention differently, and their churn and retention data may not be directly comparable to ours.
- (5) Average real estate professional customers in the quarter are calculated as the average of customers at the beginning and at the end of the quarter.
- (6) Average monthly revenue per customer is calculated as real estate professional revenue for the quarter divided by the average number of customers in the quarter.

On a sequential quarter basis, our customer count decreased by 1,136 customers during the fourth quarter of 2008, compared to a decrease of 697 customers in the third quarter of 2008. For the fourth quarter of 2008, the number of cancelling customers increased slightly and customer additions decreased. Ending customers at December 31, 2008 decreased 31% compared to December 31, 2007.

It continued to be a challenging real estate market in the fourth quarter of 2008, which has been further complicated by broader economic conditions. We believe this trend impacts the investment in marketing that real estate professionals are willing to make, resulting in a slowing of new sales, as well as the possibility of lower retention rates. The average monthly retention rate for our customers was 92.2% for the fourth quarter of 2008, a lower rate than the third quarter of 2008 that we believe was driven by significant deterioration in the financial and credit markets. Due to the continued volatility of the real estate market and broader economic concerns, we expect to experience fluctuations in our customer retention rate from quarter to quarter.

Average monthly revenue per customer for the fourth quarter of 2008 decreased compared to the third quarter of 2008 primarily as a result of customers reducing their spend, as well as pricing adjustments made in response to the current market conditions. Average revenue per customer will fluctuate from quarter to quarter based on the mix of sales for products priced differently across lower and higher priced geographies, the demand for existing services and the acceptance of new product offerings.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash, cash equivalents and short-term investments, as well as the cash flow that we may generate from our operations. Our cash, cash equivalents and short-term investments totaled \$58.6 million at December 31, 2008 as compared to \$62.9 million at December 31, 2007.

Early in 2008, we modified our investment strategy to preserve the security and liquidity of our funds, which has resulted in significantly lower rates of return. In the first quarter, we completed the liquidation of our investments in auction rate securities at par and invested the proceeds in money market funds that invest in high quality short-term U.S. Government obligations and repurchase agreements collateralized by U.S. Government obligations. Substantially all of our money market funds are covered by the Temporary Guarantee Program for Money Market Funds provided by the U.S. Treasury as announced in September 2008. As of December 31, 2008, the company has invested in cash equivalents consisting of the money market funds mentioned previously and U. S. Treasury securities. Short-term investments are comprised of U. S. Treasury securities and FDIC-insured certificates of deposit with terms of one year or less.

Table of Contents

The following table presents summary cash flow data:

	2008	Year Ended December 31, 2007	2006
	(dollars in thousands)		
Cash provided by (used in) operating activities	\$ 1,609	\$ (39)	\$ 11,164
Cash provided by (used in) investing activities	14,179	(13,797)	(11,507)
Cash used in financing activities	(3,570)	(90)	(9,515)

Operating Activities

Net cash from operating activities consists of our net operating results adjusted for certain non-cash items, including depreciation, amortization, stock-based compensation, deferred income taxes, gains on sales of fixed assets, equity in loss of our unconsolidated subsidiary, impairment of goodwill and long-lived assets and the effect of changes in working capital. Cash flow provided by operations increased \$1.6 million in 2008 compared to 2007. This increase was primarily due to a decreased reduction in our current liabilities as compared to 2007, offset in part by an increase in our net loss after non-cash items.

Net cash provided by operating activities decreased \$11.2 million in 2007 compared to 2006. This decrease was primarily due to an \$8.2 million reduction in our current liabilities, as well as an increase in our net loss after non-cash items.

Investing Activities

Cash from investing activities for 2008 increased by \$28.0 million compared to the same period last year. During 2008, we liquidated all of our short-term investments consisting of auction rate securities at par and invested the proceeds in money market funds. In fourth quarter of 2008 we invested \$10.0 million in U.S. Treasury bills that are classified as short term investments and \$1.0 million in FDIC-insured certificates of deposit. Also in 2008, we received proceeds of \$1.2 million from the assignment of our purchase option for the Yakima facility and the transfer of all remaining assets in the facility. In 2007 we acquired a minority interest in ActiveRain for a cash payment of \$2.8 million.

We made payments related to our acquisition of Realty Generator of approximately \$0.9 million in 2008, compared to our initial acquisition payments, net of cash acquired, of \$9.2 million in 2007. During 2009 we will pay the final quarterly payment of \$0.2 million equal to 75% of Realty Generator's earnings, as defined in the asset purchase agreement for the acquisition. We do not believe any further incentive payments will be required.

Cash used in investing activities for 2007 increased by \$2.3 million compared to 2006. In the fourth quarter of 2007, we purchased Realty Generator and invested in ActiveRain for a total cash outlay of \$12.0 million. These expenditures were partially offset by a decrease in our purchases of property and equipment of \$4.9 million and the \$3.8 million increase in net proceeds from the liquidation of our short-term investments.

Financing Activities

Cash used in financing activities increased by \$3.5 million compared to the same period in 2007 primarily due to the repayment of an outstanding note for \$1.6 million, the purchase of \$2.0 million of our common stock compared to \$1.0 million in 2007, and approximately \$0.5 million in reduced proceeds for stock option exercises.

Cash used in financing activities for 2007 decreased \$9.4 million compared to 2006 primarily because we paid \$1.0 million for the purchase of our common stock in 2007, compared to \$11.4 million in 2006.

Table of Contents**Purchase and Retirement of Common Stock**

In October 2006, our Board of Directors authorized a share repurchase program to purchase and retire up to 2 million shares of our common stock. During 2008, we purchased and retired 821,957 shares for \$2.0 million. The shares were purchased at an average price of \$2.44 per share and represent approximately 3% of the shares outstanding at December 31, 2007. At December 31, 2008, 0.9 million shares remain available for purchase under the share repurchase program.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2008 - October 31, 2008	394,041	\$ 2.37	394,041	955,373
November 1, 2008 - November 30, 2008	27,330	\$ 2.47	27,330	928,043
December 1, 2008 - December 31, 2008	2,381	\$ 1.74		928,043
Total	423,752	\$ 2.37	421,371	928,043

- (1) During the period from October 1, 2008 to December 31, 2008, an aggregate of 2,381 shares of our common stock were tendered at \$1.740 per share in satisfaction of employees' income taxes upon the vesting of restricted stock. All of these shares were tendered in December 2008.

Contractual Obligations and Known Future Cash Requirements

The following table summarizes our contractual obligations at December 31, 2008 and the expected effect on our liquidity and cash flows. We expect to fund these commitments primarily with operating cash flows generated in the normal course of business.

	Total	Payments Due by Period			More Than 60 months
		Less Than 12 months	13 36 Months (in thousands)	37 60 Months	
Purchase commitments	442	402	40		
Operating lease obligations	1,625	793	832		
	\$ 2,067	\$ 1,195	\$ 872	\$	\$

This table excludes the short-term liabilities disclosed on our balance sheets and other long-term liabilities that do not require cash payments, such as deferred rent and deferred income taxes.

Advertising and Media Contracts

We purchase advertising from numerous online and offline advertising vendors, such as Google, Yahoo!, CNN, Fox, MSNBC and HomeGain. We typically purchase and pay for online and television advertising on a monthly basis. To the extent that we have ongoing obligations to purchase a fixed or minimum amount of advertising, we have included these obligations under purchase commitments in the table above.

Future Earn-out Payments related to the Acquisition of Realty Generator

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We acquired substantially all of the assets of Realty Generator, LLC and a related entity for \$10.2 million in cash and assumed liabilities, as well as contingent payments of \$0.8 million based on the results of operations of

Table of Contents

the acquired assets. Future payments will be based on revenue goals through June 30, 2009 as well as the final quarterly payment of \$0.2 million equal to 75% of earnings, as defined. As contingent consideration is earned, the amounts are recorded as goodwill.

Future Capital Requirements

We believe that our existing cash, cash equivalents and short-term investments will be sufficient to satisfy our currently anticipated cash requirements through at least the next twelve months. Our future capital requirements will depend on many factors, including our revenue trend, the level of our marketing and sales activities, the timing and extent of spending to support product development efforts, and the timing of introductions of new services and enhancements to existing services. Although we are currently not a party to any agreement or letter of intent with respect to investments in, or acquisitions of, complementary businesses, products, services or technologies, we may enter into these types of arrangements in the future. We may need to raise additional capital through future debt or equity financing to the extent necessary to fund such activities. Additional financing may not be available at all or on terms favorable to us.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. The following discussion highlights the policies and estimates we feel are critical.

Business Combinations, Intangible Assets, and Goodwill

Valuation when acquired. We account for our business combinations using the purchase method of accounting, which requires that we record the assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions. In our 2007 acquisition of the assets of Realty Generator, we determined the fair value of various identifiable intangible assets, including trade name, customer lists and developed technology. We used factors such as market prices for similar assets and revenue estimates of customers acquired, adjusted for assumed attrition rates and estimated costs that would be incurred to generate revenue using the acquired developed technology and other assets. Our estimates of revenue and costs were based on historical data, internal estimates and a variety of external sources.

We record goodwill when the purchase price of an acquisition exceeds the fair value of the assets acquired less the liabilities assumed. In the 2007 acquisition of Realty Generator, we recorded goodwill at the time of acquisition, and increased our goodwill in 2008 based on the additional incentives earned based on the earnings of the acquired assets, as defined.

Ongoing reporting and impairment testing. Our intangible assets, other than goodwill, and other long-lived assets are amortized or depreciated over their estimated useful lives and are tested for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Further, we are required to evaluate goodwill annually for impairment and when circumstances indicate the carrying value of goodwill may not be recoverable. We conduct our annual test for impairment in the fourth quarter. The assessment of impairment of long-lived assets, including goodwill requires significant judgment to determine the number of reporting units, to estimate future cash flows, to use appropriate market value factors, to estimate the related asset lives and other assumptions as noted below. Changes in these estimates and assumptions can materially affect the fair value determination and potential goodwill impairment.

Table of Contents

Results of impairment tests. We continue to face challenging real estate market conditions, which have been further impacted by the broader economic downturn. When the economic climate combined with a decline in our stock price at the end of the third quarter, we evaluated our goodwill for impairment, ahead of our normal timing for the annual test. At that time we determined there was no impairment. We also evaluated our long-lived assets for impairment, and consistent with the outcome of our goodwill assessment, determined that our long-lived assets were not impaired.

Based on continued difficult economic conditions, further significant decline in our stock price and other factors, we again evaluated goodwill for impairment in the fourth quarter of 2008. As a result, we recorded an impairment charge to goodwill of \$4.9 million, representing a write off of the entire amount of our previously recorded goodwill. We also evaluated our long-lived assets for impairment and determined that we did not have an impairment charge related to our long-lived assets.

Our impairment analyses for goodwill were dependent on many variables. We determined the fair value of our net assets based on a combination of market and income approaches. Key assumptions used in the market approaches included the determination that we have a single reporting unit, the appropriate stock price to determine market value, use of control premium and determination of the appropriate control premium, determination of an appropriate set of comparable companies. Key assumptions in the income approach was based on a discounted case model, which included significant assumptions about our future revenues, expenses, target profitability rates, and determination of an appropriate discount rate. Due to current market conditions, greater weighting was attributed to the market approaches, which were weighted 70% while the income approach was weighted 30% in arriving at our determination of the fair value of our net assets.

Our impairment analyses for our long-lived assets other than goodwill included a number of key variables, included estimated future cash flows. We determined the fair value of our long-lived assets based on several key assumptions, including the determination that we have a single asset grouping, references to quoted market prices for similar assets, estimates of replacement cost, as well as assumptions about our future revenues, expenses, target profitability rates, and determination of an appropriate discount rate.

The complexities of the analyses used to assess impairment of our goodwill and long-lived assets do not permit a simplistic determination of the impact of changes in assumptions. We believe one of the most significant impacts of a change in the assumptions used in determining our goodwill impairment as of September 30, 2008 and December 31, 2008, related to our determination that we operate a single reporting unit. If we had determined that there were two or more reporting units, we may have determined that there had been an impairment of goodwill at September 30, 2008, or that there had been less than a full impairment charge to our goodwill as of December 31, 2008. This discussion is not intended to address all potential outcomes that could have resulted if we had used different assumptions to determine impairment of our goodwill and other long-lived assets given the number of assumptions used to make those determinations and the degree of sensitivity in the determination of fair value of the company and our assets and liabilities.

Although we have no goodwill remaining, we continue to carry approximately \$8.6 million of long-lived assets as of December 31, 2008, and while we continue to depreciate these assets, at the same time, we continue to capitalize costs related to internally generated software and may acquire other capital assets. Factors that may require future assessments of impairment of our long-lived assets include, among others, deterioration of our estimate of future cash flows or lower customer retention rates than projected.

In 2007, we assessed the realizability of our goodwill and other long-lived assets based on our history of operating losses and the decline in the market value of our stock, particularly in the fourth quarter of 2007. As a result of these analyses, we recorded impairment charges totaling \$6.1 million related to goodwill and other long-lived assets in 2007.

Table of Contents

In 2006, we assessed the realizability of assets related to the mortgage segment. As a result of the deterioration of projected future cash flows for our mortgage segment, we recorded an impairment charge of \$6.2 million in 2006 related to the intangible assets and goodwill from The Loan Page acquisition. Management made a formal decision to exit the mortgage lead generation business in January 2007.

Minority Investment in Unconsolidated Subsidiary

Valuation when acquired. We paid \$2.75 million for a minority interest in ActiveRain Real Estate Network during 2007. As there was a difference of \$2.1 million between our cost and our share of the underlying equity in ActiveRain's net assets, we were required to apply purchase accounting methodology to identify intangible assets and goodwill acquired. Significant judgment was used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions. We identified and assigned values to in-process research and development, developed technology, trade name and member base, in addition to goodwill.

Ongoing reporting and impairment testing. As our investment represents an ownership interest of 33%, a significant ownership interest, we apply the equity method of accounting. Therefore our investment represents our original investment and our proportionate share of their net loss, as adjusted for the impact of amortization or impairment of the identified intangible assets and goodwill.

Results of impairment tests. Our investment must also be periodically reviewed to determine whether the value of the investment may be impaired on an other-than-temporary basis. The determination of the fair value of this asset is dependent on material judgment and estimates, which as ActiveRain is a privately held company are based primarily on the income approach using management's estimates of future cash flows. This analysis therefore includes the same significant assumptions used when we recorded our initial investment in ActiveRain, as well as the determination that impairment is other than temporary.

Our assessment of other than temporary impairment for our ActiveRain investment as of December 31, 2008 resulted in an impairment charge of \$1.3 million to reduce the carrying value of our investment to our estimate of fair value, \$0.6 million. The effect of a 10% change to the most significant variable, estimated future cash flows, would have changed our impairment charge by approximately \$400k. We expect to continue to record our proportionate share of ActiveRain's net losses in 2009, and do not expect to record future impairment losses in the near term due to the decreased carrying value of our investment.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities and for operating loss carryforwards in our existing business and related to acquisitions. We must make significant assumptions, judgments and estimates to determine the provision for income taxes and the related current and deferred tax assets and liabilities, as well as the valuation allowance to be recorded against deferred tax assets. Our judgments, assumptions and estimates must take into account current tax laws, our interpretation of current tax laws and possible outcomes of future tax audits.

Changes in the amount of our tax exempt income, increases in operating losses, changes in the tax laws or our interpretation of the tax laws and the resolution of future tax audits could significantly impact the amounts provided for income taxes and the amount of valuation allowances required in our consolidated financial statements.

At December 31, 2008, we have net deferred tax assets of \$10.6 million, before reduction for our valuation allowance. We considered all available evidence to determine whether a valuation allowance was required for those assets, including the following factors: estimates regarding the timing and amount of the reversal of taxable

Table of Contents

temporary differences, taxable income in prior carryback years as permitted under tax law, historical taxable income, normalized for non-recurring items, expected future taxable income and the impact of tax planning strategies. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Based on our current projections of future operating profits, we continue to believe that it is not likely that we will be able to realize our deferred tax assets and continue to maintain a valuation allowance for the full amount of our net deferred tax assets at December 31, 2008.

Stock-Based Compensation

We recognize the fair value of stock-based compensation related to option grants using the Black-Scholes pricing model which requires the input of highly subjective assumptions, including estimating the stock option expected life and stock price volatility. Changes in any of these assumptions could materially impact the estimated fair value of options granted.

The following table illustrates the effect of changing these significant variables on the estimated fair value of our options. The following examples are hypothetical but representative of our option grants and their related fair values at December 31, 2008. In each analysis, the remaining variables are held constant. This illustration is not intended to provide a range of exposure or expected deviation.

Effect of a 10% change in our stock price volatility estimate:

	-10%	Current Volatility Estimate	+10%
Stock option volatility	42%	52%	62%
Estimated fair value	\$ 0.86	\$ 1.03	\$ 1.18

Effect of a 1-year change in expected life of our stock options:

	-1 Year	Current Expected Life Estimate	+1 Year
Estimated option life	2.5 years	3.5 years	4.5 years
Estimated fair value	\$ 0.87	\$ 1.03	\$ 1.16

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which provides a common definition of fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about such fair value measurements. SFAS 157 will apply prospectively to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis as of the beginning of 2009 and applies to all other fair value measurements as of the beginning of 2008. The provisions of SFAS 157 adopted at the beginning of 2008 did not have a material impact on our financial position and results of operations. The primary items that would be affected by the remaining provisions of SFAS 157 are our goodwill impairment and long-lived asset impairment tests. While we are unable to forecast the amount of impairment charges that might be recognized in future periods, we do not expect SFAS 157 to materially change the fair value amounts that will be calculated in the future relative to the fair value amounts that would be calculated if SFAS 157 were not adopted.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 115 (SFAS 159). Under SFAS 159, entities may elect to measure eligible items at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, enables entities to

Table of Contents

achieve an offset accounting effect for changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions. We have elected not to apply the fair value option to any of our financial instruments. As a result, there was no impact on our financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141 (R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We do not expect the adoption of SFAS No. 141 (R) and SFAS No. 160 will have a material impact on our financial statements.

In April 2008, the FASB issued FASB Staff Position FAS 142-3 (FSP FAS 142-3), Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance contained in this FSP for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after the effective date.

In May 2008, FASB issued FAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (FAS 162). This statement documents the hierarchy of the various sources of accounting principles and the framework for selecting the principles used in preparing financial statements. FAS 162 shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles . FAS 162 will not have a material impact on our consolidated financial statements.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal and liquidity without incurring significant risk. Previously, we invested our funds in money market funds and auction rate securities. Early in 2008, we modified our investment strategy to preserve the security and liquidity of our funds, which has resulted in significantly lower rates of return. In the first quarter of 2008, we completed the liquidation of our investments in auction rate securities at par and invested the proceeds in money market funds that invest in high quality short-term U.S. Government obligations and repurchase agreements collateralized by U.S. Government obligations. Substantially all of our funds are covered by the Temporary Guarantee Program for Money Market Funds provided by the U.S. Treasury as announced in September 2008 for investments in money market funds as of September 19, 2008. In the fourth quarter we invested \$20 million in U.S. Treasury bills and \$1 million in FDIC-insured certificates of deposit. Because of the current global economic crisis, we continue to evaluate the security of our investments and the institutions where we hold our investments.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 15 for the Index to the consolidated financial statements and supplementary data required by this item, which are filed as part of this report and are incorporated herein by reference.

See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading Quarterly Consolidated Statements of Operations for selected quarterly financial data, which data is incorporated herein by reference.

Table of Contents

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

There were no disagreements with the Company's independent registered public accounting firm on accounting and financial disclosure matters within the three year period ended December 31, 2008.

ITEM 9A: CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, we performed an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures, were effective in ensuring that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f), for us. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control - Integrated Framework* issued by the Committee of the Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

We do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected.

KPMG, LLP, the independent registered public accounting firm that audited the Company's financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2008, which is included herein at page 40.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2008, which were identified in connection with our management's evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Market Leader, Inc.:

We have audited Market Leader, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Market Leader, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Market Leader, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Market Leader, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 13, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington

March 13, 2009

Table of Contents**ITEM 9B: OTHER INFORMATION**

No information was required to be disclosed in a Current Report on Form 8-K during the fourth quarter of 2008 that was not reported as required.

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

Information required for this section will be included in our Proxy Statement relating to our annual meeting of shareholders to be held on May 28, 2009, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2008, our fiscal year end.

We have adopted a code of ethics applicable to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer or Controller, or persons performing similar functions. The code of ethics is available on the Investor Relations-Corporate Governance section of our Internet website at www.marketleader.com.

ITEM 11: EXECUTIVE COMPENSATION

Information required for this section will be included in our Proxy Statement relating to our annual meeting of shareholders to be held on May 28, 2009, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2008, our fiscal year end.

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

Except for the Equity Compensation Plan Information below, the information required for this section will be included in our Proxy Statement relating to our annual meeting of shareholders to be held on May 28, 2009, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2008, our fiscal year end.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information concerning our equity compensation plans as of December 31, 2008:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)	(b) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	4,769,919	\$ 3.13	1,089,717(2)(3)
Equity compensation plans not approved by shareholders			
Total	4,769,919	\$ 3.13	1,089,717(2)(3)

- (1) We have stock options outstanding under the 1999 Stock Option Plan as well as stock options and restricted stock units under the 2004 Equity Incentive Plan. The 1999 Plan was terminated on December 15, 2004 with respect to new grants, and no further options will be granted under the 1999 Plan. In August 2004, our board of directors and shareholders approved the 2004 Plan, which became effective on December 15, 2004.

Table of Contents

- (2) The 2004 Plan provides for an automatic annual increase in the number of shares on January 1st of each year for the life of the plan starting in 2005, equal to the least of (i) 700,000 shares, (ii) 3% of the outstanding common stock at the end of the immediately preceding year or (iii) a lesser amount as may be determined by our board of directors. Effective January 1, 2009, an additional 700,000 shares have been authorized for issuance under the automatic annual increase provisions of the 2004 Plan.
- (3) Under the 2004 Plan, in addition to stock options and restricted stock units, we may grant restricted stock, stock appreciation rights, performance units, performance shares, and other stock based awards.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required for this section will be included in our Proxy Statement relating to our annual meeting of shareholders to be held on May 28, 2009, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2008, our fiscal year end.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required for this section will be included in our Proxy Statement relating to our annual meeting of shareholders to be held on May 28, 2009, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2008, our fiscal year end.

Table of Contents**PART IV****ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as a part of the report:

(1) FINANCIAL STATEMENTS. The following financial statements of the Registrant and the Report of Independent Registered Public Accounting Firm therein are filed as part of this Annual Report on Form 10-K:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	52
<u>Consolidated Statements of Operations</u>	53
<u>Consolidated Balance Sheets</u>	54
<u>Consolidated Statements of Shareholders' Equity</u>	55
<u>Consolidated Statements of Cash Flows</u>	56
<u>Notes to Consolidated Financial Statements</u>	57

(2) FINANCIAL STATEMENT SCHEDULES.

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2008, 2007 and 2006 page 76.

(b) EXHIBIT INDEX: The following exhibits are filed as a part of, or incorporated by reference into, this Annual Report on Form 10-K:

Exhibit No.	Description
2.1&	Asset Purchase Agreement, by and among HouseValues, Inc., Realty Generator, LLC, Tom Ray and Justin Tracy and Blackwater Realty, LLC, dated November 1, 2007, incorporated by reference from Exhibit 2.1 to the Registrant's Form 8-K filed on November 1, 2007 (File No. 000-51032).
3.1+	Amended and Restated Articles of Incorporation of the registrant, as amended to date.
3.2	Amended and Restated Bylaws of the registrant, incorporated by reference to Exhibit 3.2 to the Registrant's Form 8-K filed on October 15, 2008 (File No. 000-51032).
10.1*	1999 Stock Incentive Plan, incorporated by reference from Registration No. 333-118740, Exhibit 10.1.
10.2*	2004 Equity Incentive Plan, incorporated by reference to Exhibit 10.2 to the Registrant's Form S-1 filed on September 1, 2004 (Registration No. 333-118740).
10.3*	Employment Agreement by and between the registrant and Ian Morris, dated May 13, 2004, incorporated by reference to Exhibit 10.3 to the Registrant's Form S-1 filed on September 1, 2004 (Registration No. 333-118740).
10.4*	Incentive Stock Option Letter Agreement by and between the registrant and Ian Morris, dated May 13, 2004, incorporated by reference to Exhibit 10.4 to the Registrant's Form S-1 filed on September 1, 2004 (Registration No. 333-118740).
10.5	Commercial Lease between the registrant and Kirkland 405 Corporate Center, dated October 26, 2004, incorporated by reference to Exhibit 10.14 to the Registrant's Form S-1/A filed on November 4, 2004 (Registration No. 333-118740).
10.6*	Form of Standard Option Agreement under the HouseValues, Inc. 2004 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 29, 2005 (File No. 000-51032).

Table of Contents

Exhibit No.	Description
10.7*	Form of Option Agreement under the HouseValues, Inc. 2004 Equity Incentive Plan for Options Granted to the Chief Executive Officer, incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on August 29, 2005 (File No. 000-51032).
10.8*	Form of Option Agreement under the HouseValues, Inc. 2004 Equity Incentive Plan for Options Granted to the Chief Operating Officer, Chief Financial Officer and General Counsel, incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on August 29, 2005 (File No. 000-51032).
10.9*	Summary of HouseValues, Inc. 2008 Management Bonus Incentive Plan, incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q filed on May 8, 2008 (File No. 000-51032).
10.10*	Description of nonqualified stock option program for non-employee directors, incorporated by reference from the description contained in the Registrant's Form 8-K filed on February 10, 2006 (File No. 000-51032).
10.11*	Employment Agreement by and between the registrant and R. Barry Allen, dated January 23, 2007, incorporated by reference to Exhibit 10.18 to the Registrant's Form 10-K filed on March 5, 2007 (File No. 000-51032).
10.12*	Form of Restricted Stock Unit Award Agreement for HouseValues Executives under the HouseValues, Inc. 2004 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 7, 2007 (File No. 000-51032).
10.13*	Form of Option Agreement under the HouseValues, Inc. 2004 Equity Incentive Plan for Non-Employee Directors, incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on February 10, 2006 (File No. 000-51032).
10.14*	Employment Agreement by and between the registrant and Jacqueline L. Davidson, dated February 19, 2008, incorporated by reference to Exhibit 10.18 to the Registrant's Form 10-K filed on March 12, 2008 (File No. 000-51032).
10.15*	Employment Agreement by and between the registrant and Richard F. Goebel, dated July 6, 2007, incorporated by reference to Exhibit 10.19 to the Registrant's Form 10-K filed on March 12, 2008 (File No. 000-51032).
10.16*	Separation Agreement and Release by and between the registrant and Richard F. Goebel, dated January 23, 2008, incorporated by reference to Exhibit 10.20 to the Registrant's Form 10-K filed on March 12, 2008 (File No. 000-51032).
10.17*	Separation Agreement and Release by and between the registrant and R. Barry Allen, dated March 7, 2008, incorporated by reference to Exhibit 10.21 to the Registrant's Form 10-K filed on March 12, 2008 (File No. 000-51032).
10.18*+	Employment Agreement by and between the registrant and Michael A. Nelson, dated May 14, 2008.
10.19*+	Form of Amendment Agreement by and between the registrant and Market Leader Executives.
21.1+	Subsidiaries of the registrant.
23.1+	Consent of KPMG LLP, independent registered public accounting firm.
31.1+	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2+	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

Table of Contents

Exhibit No.	Description
32.1+	Section 1350 Certification of Chief Executive Officer.
32.2+	Section 1350 Certification of Chief Financial Officer.

& Pursuant to Item 601(b) (2) of Regulation S-K, the registrant agrees to furnish supplementally a copy of any omitted exhibit or schedule to the SEC upon request.

* Indicates a management contract or compensatory plan or arrangement.

+ Filed herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Kirkland, State of Washington, on the 13th day of March 2009.

MARKET LEADER, INC.

By: */s/ IAN MORRIS*
Ian Morris
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated below on the 13th day of March, 2009.

Signature	Title
<i>/s/ FRANK M. (PETE) HIGGINS</i> Frank M. (Pete) Higgins	Chairman of the Board and Director
<i>/s/ IAN MORRIS</i> Ian Morris	Chief Executive Officer and Director (Principal Executive Officer)
<i>/s/ JACQUELINE DAVIDSON</i> Jacqueline Davidson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<i>/s/ JON W. GACEK</i> Jon W. Gacek	Director
<i>/s/ NICOLAS J. HANAUER</i> Nicolas J. Hanauer	Director
<i>/s/ RICHARD A. MENDENHALL</i> Richard A. Mendenhall	Director

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Market Leader, Inc.:

We have audited the accompanying consolidated balance sheets of Market Leader, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II-Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Market Leader, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Market Leader, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington

March 13, 2009

Table of Contents**Market Leader, Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

	Years Ended December 31,		
	2008	2007	2006
Revenues	\$ 38,368	\$ 59,808	\$ 85,824
Expenses:			
Sales and marketing (1)	24,978	39,453	55,476
Technology and product development (1)	6,409	9,114	11,375
General and administrative (1)	9,245	12,166	12,305
Gain on sale of fixed assets	(791)		
Impairment of goodwill and long-lived assets	4,883	6,116	
Depreciation and amortization of property and equipment (2)	4,046	5,634	5,177
Amortization of acquired intangible assets	1,929	760	564
Total expenses	50,699	73,243	84,897
(Loss) Income from operations	(12,331)	(13,435)	927
Equity in loss of unconsolidated subsidiary	(2,004)	(162)	
Interest income and expense, net	1,225	2,982	2,653
(Loss) Income before income tax expense	(13,110)	(10,615)	3,580
Income tax expense	9	1,954	252
Net (loss) income from continuing operations	(13,119)	(12,569)	3,328
Discontinued operations:			
Income (loss) from discontinued operations (1)		297	(9,950)
Income tax expense (benefit)		103	(3,484)
Gain (loss) on discontinued operations		194	(6,466)
Net loss	\$ (13,119)	\$ (12,375)	\$ (3,138)
Net (loss) income per share-basic:			
Net (loss) income from continuing operations per share-basic	\$ (0.54)	\$ (0.51)	\$ 0.13
Net loss per share-basic	\$ (0.54)	\$ (0.50)	\$ (0.12)
Net (loss) income per share-diluted:			
Net (loss) income from continuing operations per share-diluted	\$ (0.54)	\$ (0.51)	\$ 0.13
Net loss per share-diluted	\$ (0.54)	\$ (0.50)	\$ (0.12)

(1) Stock-based compensation is included in the expense line items above in the following amounts:

	Years Ended December 31,		
	2008	2007	2006
Sales and marketing	\$ 970	\$ 804	\$ 894
Technology and product development	200	404	682

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General and administrative	2,155	2,336	2,261
Discontinued operations		19	275
	\$ 3,325	\$ 3,563	\$ 4,112

(2) Depreciation and amortization of property and equipment is allocated as follows:

	Years Ended December 31,		
	2008	2007	2006
Technology and product development	\$ 3,175	\$ 3,687	\$ 3,111
General and administrative	871	1,947	2,066
	\$ 4,046	\$ 5,634	\$ 5,177

See accompanying notes to consolidated financial statements.

Table of Contents**Market Leader, Inc.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	December 31,	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,668	\$ 35,450
Short-term investments	10,980	27,400
Trade accounts receivable, net of allowance of \$29 and \$50, respectively	79	128
Prepaid expenses and other current assets	1,480	1,764
Prepaid income taxes	2	905
Total current assets	60,209	65,647
Property and equipment, net	4,452	6,187
Goodwill		3,833
Intangible assets, net	4,179	6,330
Minority investment in unconsolidated subsidiary	584	2,588
Other noncurrent assets		398
Total assets	\$ 69,424	\$ 84,983
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 736	\$ 1,395
Accrued compensation and benefits	1,767	2,084
Accrued expenses and other current liabilities	1,111	1,809
Deferred rent, current portion	289	289
Deferred revenue	374	373
Note payable		1,873
Total current liabilities	4,277	7,823
Deferred rent, less current portion	303	722
Total liabilities	4,580	8,545
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Preferred stock, par value \$0.001 per share, stated at amounts paid in; authorized 30,000,000 shares; none issued and outstanding at December 31, 2008		
Common stock, par value \$0.001 per share, stated at amounts paid in; authorized 120,000,000 shares; issued and outstanding 24,035,074 and 24,521,139 shares at December 31, 2008 and 2007, respectively	67,900	66,375
(Accumulated deficit)/Retained earnings	(3,056)	10,063
Total shareholders' equity	64,844	76,438
Total liabilities and shareholders' equity	\$ 69,424	\$ 84,983

See accompanying notes to consolidated financial statements.

Table of Contents**Market Leader, Inc.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(In thousands, except share data)

	Common Stock		Deferred Stock- Based Compensation	Retained Earnings (Accumulated Deficit)	Total Share- holders Equity
	Shares	Amount			
Balance at December 31, 2005	25,783,980	71,385	(2,897)	25,576	94,064
Elimination of deferred stock-based compensation		(2,897)	2,897		
Exercises of stock options, including income tax excess benefits of \$550	626,863	1,927			1,927
Stock-based compensation		4,241			4,241
Purchase and retirement of common stock	(2,000,000)	(11,441)			(11,441)
Net loss				(3,138)	(3,138)
Balance at December 31, 2006	24,410,843	63,215		22,438	85,653
Exercises of stock options, including income tax shortfall benefits of \$355	360,296	440			440
Stock-based compensation		3,688			3,688
Purchase and retirement of common stock	(250,000)	(968)			(968)
Net loss				(12,375)	(12,375)
Balance at December 31, 2007	24,521,139	\$ 66,375	\$	\$ 10,063	\$ 76,438
Exercises of stock options (including vested restricted stock)	420,954	260			260
Stock-based compensation		3,505			3,505
Purchase and retirement of common stock	(821,957)	(2,008)			(2,008)
Payment of taxes due upon vesting of restricted stock	(85,062)	(232)			(232)
Net loss				(13,119)	(13,119)
Balance at December 31, 2008	24,035,074	\$ 67,900	\$	\$ (3,056)	\$ 64,844

See accompanying notes to consolidated financial statements.

Table of Contents**Market Leader, Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	Years Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net loss	\$ (13,119)	\$ (12,375)	\$ (3,138)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Impairment of goodwill and long-lived assets	4,883	6,116	6,186
Depreciation and amortization of property and equipment	4,046	5,634	5,177
Amortization of intangible assets	1,929	760	1,259
Stock-based compensation	3,325	3,563	4,112
Deferred income tax (benefit) expense		3,060	(3,529)
Gain on sale of fixed assets	(791)		
Tax benefit from exercises of stock options		(83)	
Equity in loss of unconsolidated subsidiary	2,004	162	
Changes in certain assets and liabilities, net of acquisitions:			
Accounts receivable	49	300	161
Prepaid expenses and other current assets	284	(773)	955
Prepaid income taxes	903	995	(1,164)
Other noncurrent assets	398	11	
Accounts payable	(659)	(1,373)	1,417
Accrued compensation and benefits	(317)	(1,101)	(1,051)
Accrued expenses and other current liabilities	(625)	(3,830)	1,519
Deferred rent	(419)	(372)	(329)
Deferred revenue	1	(864)	(553)
Other liabilities	(283)	131	142
Net cash provided by (used in) operating activities	1,609	(39)	11,164
Cash flows from investing activities:			
Purchases of short-term investments	(10,980)	(39,145)	(5,000)
Sales of short-term investments	27,400	40,145	2,240
Proceeds from sale of fixed assets	1,209		
Purchases of property and equipment	(2,549)	(2,808)	(7,742)
Purchases of intangible assets		(14)	(48)
Cash paid for business acquisitions, net of cash acquired	(901)	(9,225)	(1,287)
Minority investment in unconsolidated subsidiary		(2,750)	
Change in restricted cash and other noncurrent assets			330
Net cash provided by (used in) investing activities	14,179	(13,797)	(11,507)
Cash flows from financing activities:			
Principal payment on note payable	(1,590)		
Purchase and retirement of common stock	(2,008)	(968)	(11,441)
Proceeds from exercises of stock options and warrants	260	795	1,376
Payment of taxes due upon vesting of restricted stock	(232)		
Tax benefit from exercises of stock options		83	550
Net cash used in financing activities	(3,570)	(90)	(9,515)

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Net increase (decrease) in cash and cash equivalents	12,218	(13,926)	(9,858)
Cash and cash equivalents at beginning of year	35,450	49,376	59,234
Cash and cash equivalents at end of year	\$ 47,668	\$ 35,450	\$ 49,376

See accompanying notes to consolidated financial statements.

Table of Contents

Market Leader, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands except per share amounts)

Note 1: The Company and Summary of Significant Accounting Policies

Nature of Operations

Founded in 1999, Market Leader, Inc. (NASDAQ: LEDR) provides real estate professionals with the tools and services they need to manage and grow their real estate businesses. We have been an innovator in internet-based marketing services for real estate professionals since the company's inception. We recently began to shift our business model from its original lead generation model and toward offerings that combine software-as-a-service with access to industry-leading media buying and lead generation services. Our lead generation products continued to account for the majority of customer relationships and revenue in 2008.

In November 2008 we introduced Growth Leader, a personalized website and proprietary customer relationship management tool for real estate agents, as well as a related product for agent teams, Team Leader. Together with RealtyGenerator, a turnkey lead generation and lead management system for real estate brokerage companies that we acquired in 2007, these offerings constitute the new products that support the shift in our business model. These products feature Vision, a personalized website and proprietary customer relationship management tool for real estate agents, and include access to industry-leading media buying and lead generation services to help them attract new clients and promote themselves throughout their community.

Additionally, Market Leader provides consumers with free access to the information and tools they need throughout the home buying and selling process. Our nationwide consumer web sites include: JustListed.com, a service that notifies home buyers as soon as new homes hit the market; HouseValues.com, a service that provides home sellers with market valuations of their current homes and HomePages.com, a real estate portal that enables consumers to see all the home listings in their area, view detailed neighborhood and school data, compare recent home sales, find local real estate agents, and find the value of their own homes. Market Leader's new family of products also provide consumers with free access to similar information through localized web sites that we operate on behalf of our real estate professional customers.

Basis of Presentation

Consolidation The consolidated financial statements include the financial statements of Market Leader and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Our equity investment in an entity over which we have significant influence but hold less than a controlling interest is not consolidated. We apply the equity method and record our investment at cost plus our equity in their undistributed net income or loss adjusted for any difference between our cost and the underlying equity in the net assets of the investee at the date of the investment. This investment is evaluated for impairment when a decline in the value of the investment to less than its carrying value is determined to be other-than-temporary.

Business segments We operate a single business segment, representing marketing services provided to real estate professionals. Substantially all of our business comes from customers and operations located within the United States, and we do not have any assets located in foreign countries.

Discontinued operations In January 2007, we exited the mortgage business. Results of operations related to the mortgage business have been segregated from continuing operations and presented separately, net of related income taxes, on the statement of operations. We also have restated comparative periods for discontinued operations.

Table of Contents

Market Leader, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications Prior period financial statement amounts have been reclassified to conform to current period presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates.

On an ongoing basis, we evaluate our estimates, including those related to the fair value of acquired intangible assets and goodwill, the useful lives and potential impairment of intangible assets and property and equipment, the carrying value of our equity investment in an unconsolidated subsidiary, the value of common stock options for the purpose of determining stock-based compensation, liabilities and valuation allowances, and certain tax liabilities among others. We base our estimates on historical experience and other factors, including the current economic environment, which we believe to be appropriate under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Revenue Recognition

We recognize revenue when persuasive evidence of an agreement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Revenue is recognized on a gross basis because for the services we provide to our customers, we are the primary obligor for supplier services, have latitude in establishing price and have discretion in supplier selection. Payments received in advance of services being rendered are recorded as deferred revenue and recognized on a straight-line basis over the service period.

We generate the majority of our revenues from the services we provide to real estate professionals. We generally charge a one-time set-up fee and a monthly fixed fee for a monthly bundle of services. While some of the components may be sold on a standalone basis, all monthly services are provided in total over the term of the agreement and all are included in the monthly fee. Services are usually provided under the terms of a one-year agreement that then continues on a month-to-month basis until terminated. All initial set-up fees are recognized as revenue on a pro rata basis over the estimated customer life or the life of the contract, whichever is longer.

Sales and Marketing

Sales and marketing expenses consist primarily of online and television advertising, as well as salaries, commissions and related expenses for our sales and marketing staff. Other expenses include merchant processing fees, customer referral fees, as well as public relations and corporate communications costs.

Advertising costs are expensed as they are incurred. Total advertising expense was \$11,922, \$17,976 and \$27,486 in 2008, 2007 and 2006, respectively.

Technology and Product Development

Technology and product development expenses consist primarily of salaries and related expenses for employees responsible for customer and internal technology services. Also included are license fees, maintenance costs, Internet connectivity and hosting costs.

Table of Contents

Market Leader, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

General and Administrative

General and administrative costs consist primarily of salaries and related expenses for executive, legal, accounting, and human resources personnel. These costs also include insurance and professional fees, business taxes, rent and related expenses. Professional fees primarily consist of outside legal, audit and business consulting fees.

Stock-based Compensation

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (Revised 2004) (SFAS 123R), which requires the measurement and recognition of compensation for all stock-based awards made to employees and directors based on estimated fair values. SFAS 123R supersedes previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, for periods beginning in 2006.

We adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. In accordance with the modified prospective transition method, our consolidated financial statements for periods prior to 2006 have not been restated to reflect this change.

Prior to our adoption of SFAS 123R, we determined our stock-based compensation expense under the intrinsic value method on a straight-line basis over the vesting period of the options. With the adoption of SFAS 123R, this expense has been replaced with stock-based compensation expense determined under the fair value method. Additionally, the deferred compensation in the equity section of our balance sheet has been reclassified to our common stock account effective January 1, 2006.

Stock-based compensation recognized is based on the grant date fair value of the portion of our stock-based awards earned over that service period using the straight-line method, adjusted for expected forfeitures.

Upon adoption of SFAS 123R, we continue to use the Black-Scholes option pricing model as our method of valuation for stock option awards. Our determination of the fair value of stock option awards on the date of grant using this option pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected life of the award, our expected stock price volatility over the expected life of the award, and projected exercise behaviors. Although the fair value of stock-based awards is determined in accordance with SFAS 123R, the Black-Scholes option pricing model requires the input of highly subjective assumptions, and other reasonable assumptions could provide differing results.

Concentration of Risk

Our cash, cash equivalents and short-term investments are maintained primarily in money market funds that invest in high quality short-term U.S. Government obligations and repurchase agreements collateralized by U.S. Government obligations. Substantially all of our money market funds are covered by the Temporary Guarantee Program for Money Market Funds provided by the U.S. Treasury as announced in September 2008 for investments in money market funds as of September 19, 2008. We also hold approximately \$20 million in U.S. Treasury bills and \$1 million in FDIC-insured certificates of deposit. Because of the current global economic crisis, we continue to evaluate the security of our investments and the institutions where we hold our investments.

Table of Contents

Market Leader, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash Equivalents and Short-term Investments

Cash equivalents are short-term deposits with a maturity of three months or less from the date of purchase. Investments with stated maturities of greater than three months when purchased are classified as short-term investments. We classify our investments at the time of purchase as either held-to-maturity or available-for-sale. Held-to-maturity securities are those investments that we have the ability and intent to hold until maturity. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization of premiums and discounts to maturity, with the net amortization included in interest income. Available-for-sale securities are recorded at fair value. Unrealized gains and losses net of the related tax effect, if any, on available-for-sale securities are reported in accumulated other comprehensive income (loss), a component of shareholders equity, until realized. The estimated fair values of available-for-sale investments are based on quoted market prices as of the end of the reporting period. Any realized gains or losses on the sale of investments are determined on the specific identification method, and the related gains and losses are reflected as a component of interest income or expense.

The primary objective for our investment portfolio is safety of principal and liquidity. Investments are made with the intent of achieving the highest rate of return consistent with this objective. Our investment policy limits investments to certain types of instruments issued by institutions primarily with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer.

Fair Value of Financial Instruments

The fair value of our cash equivalents and short-term investments are based on quoted market prices or pricing models for those or similar investments. The carrying amounts of accounts receivable, accounts payable and other current liabilities approximate fair value because of their short-term maturities.

SFAS 157 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and are non-interest bearing. An allowance for doubtful accounts is maintained for potentially uncollectible receivables. We evaluate the collectibility of our accounts receivable based on several factors, including historical trends, aging of accounts, write-off experience and expectations of future performance. Delinquent accounts receivable are written off when they are determined to be uncollectible.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Property and Equipment***

Property and equipment is recorded at historical cost less depreciation. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

	Estimated Useful Life
Computer equipment and software	3 years
Internally developed software	3 years
Office equipment and furniture	1.5 - 5 years
Leasehold improvements	Lesser of remaining lease term or asset life

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and intangible assets subject to amortization, are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group over its life. If undiscounted cash flows do not recover the carrying value of the asset group, then impairment charges are recognized if the recorded value of the asset group exceeds its fair value.

Our goodwill is reviewed annually in the fourth quarter for impairment and when circumstances indicate our goodwill might be impaired.

Amortization of Intangible Assets

Amortization is calculated using the straight-line method over the following estimated useful lives:

	Estimated Useful Life
Developed technology	3 years
Domain names	5 years
Customer base	3 years
Tradename	5 years

Deferred Revenue

Deferred revenue primarily represents subscription agreement payments collected in advance and initial set up fees collected at account activation. Prepayments are recognized as revenue in the month services is provided; initial set up fees are amortized on a straight-line basis over the average life of a subscriber or the life of the contract, whichever is longer.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that the deferred tax assets will not be realized.

Table of Contents

Market Leader, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which provides a common definition of fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about such fair value measurements. SFAS 157 will apply prospectively to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis as of the beginning of 2009 and applies to all other fair value measurements as of the beginning of 2008. The provisions of SFAS 157 adopted at the beginning of 2008 did not have an impact on our financial position and results of operations. The primary items that will be affected by the remaining provisions of SFAS 157 are our goodwill impairment and long-lived asset impairment tests and our valuation of our minority investment in unconsolidated subsidiary. While we are unable to forecast the amount of impairment charges that might be recognized in future periods, we do not expect SFAS 157 to materially change the fair value amounts that will be calculated in the future relative to the fair value amounts that would be calculated if SFAS 157 were not adopted.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 115 (SFAS 159). Under SFAS 159, entities may elect to measure eligible items at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, enables entities to achieve an offset accounting effect for changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions. We have elected not to apply the fair value option to any of our financial instruments. As a result, there was no impact on our financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141 (R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We do not expect the adoption of SFAS No. 141 (R) and SFAS No. 160 will have a material impact on our financial statements.

In April 2008, the FASB issued FASB Staff Position FAS 142-3 (FSP FAS 142-3), *Determination of the Useful Life of Intangible Assets*. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance contained in this FSP for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after the effective date.

In May 2008, FASB issued FAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (FAS 162). This statement documents the hierarchy of the various sources of accounting principles and the framework for selecting the principles used in preparing financial statements. FAS 162 shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* . FAS 162 will not have a material impact on our consolidated financial statements.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2: Acquisition of Realty Generator**

On November 1, 2007, we acquired substantially all of the assets of Realty Generator, LLC and a related entity for \$10,158 in cash and assumed liabilities, as well as certain contingent payments dependent on the future results of operations. Realty Generator enhances our service offerings for real estate brokers by providing a turnkey lead generation and lead management system for real estate brokerage companies.

Subsequent to the acquisition we paid contingent consideration equal to 75% of earnings from the acquired assets, as defined, through December 31, 2008. In 2008, we paid \$845 for contingent consideration earned and we accrued \$155 at December 31, 2008. As contingent consideration was earned, the amounts were recorded as goodwill. Future incentive payments may be earned based on June 2009 revenue goals.

As of the date of acquisition, we assigned the following values to the assets and liabilities acquired:

	November 1, 2007 (Date of Acquisition)
Cash	\$ 290
Accounts receivable	12
Intangible asset developed technology	3,256
Intangible asset customer base	1,265
Intangible asset tradename	1,976
Goodwill (fully tax deductible)	3,661
Current liabilities	(890)
	\$ 9,570

We have included Realty Generator's results of operations in our consolidated statements of income since November 2007. Revenue from our RealtyGenerator product produced net revenues of \$5,745 in 2008. The following unaudited pro forma information presents a summary of our results of operations assuming the acquisition occurred at the beginning of 2007:

	Year Ended December 31, 2007 (unaudited)
Revenues from continuing operations	\$ 64,405
Net loss from continuing operations	\$ (12,852)
Net loss per share from continuing operations basic and diluted	\$ (0.52)

Note 3: Minority Investment in Unconsolidated Subsidiary

On November 16, 2007 we acquired 32.4% of the outstanding voting stock of ActiveRain Real Estate Network for \$2,750. ActiveRain is a provider of professional networking, referral, recruitment, content syndication and online marketing services for the community of professionals in real estate and related businesses.

During September 2008 ActiveRain's redemption of founder shares increased our ownership percentage to 33.3%.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our investment in ActiveRain is recorded using the equity method of accounting. Our investment represents our original investment and our proportionate share of their net loss as adjusted for any difference between our cost and the underlying equity in their net assets as of the date of our investment. The difference between our cost and the underlying equity in net assets of ActiveRain on the acquisition date was \$2,147, identified as intangible assets (in-process research and development, developed technology, trade name, and member base) and goodwill. Our proportionate share of the in-process research development totaled \$59 and was expensed at the date of investment. During 2008, we recorded charges of \$648, representing our proportionate share of their net losses, adjusted for amortization of the intangible assets.

Given the continuation of the down cycle of the real estate industry and the more recent global economic and credit crisis, as well as ActiveRain's persistent operating losses, use of cash in operations, and performance relative to original projections when we made our original investment, we evaluated our investment in ActiveRain for an other-than-temporary impairment as of December 31, 2008. The estimated fair value of ActiveRain was calculated based on a discounted cash flow analysis using updated projections from ActiveRain management and assessment of future products and revenue streams. We determined the fair value of our investment in ActiveRain was \$584, resulting in an impairment charge of \$1,356. After reducing our investment to its estimated fair value, the difference between our carrying amount and the underlying equity in net assets of ActiveRain was \$520. Based on the revised difference, we eliminated the amount originally identified as goodwill, and then reduced the identified intangible assets on a pro-rated basis down to enterprise value. The remaining intangible assets will continue to be amortized over their estimated useful lives of 3-5 years.

Note 4: Discontinued Operations – Mortgage Business

In 2005, we launched a product targeted at mortgage professionals and acquired The Loan Page product, also targeted at mortgage professionals. Subsequently, this highly competitive market faced increasing economic and competitive challenges, especially for new market entrants like Market Leader. As a result, we decided in January 2007 to exit the mortgage business. During the first quarter of 2007 we paid severance costs of \$63 related to the closure of those operations.

Results of operations for the years ended December 31, 2007 and 2006 related to the mortgage business have been segregated from continuing operations and presented separately, net of related income taxes, on the statement of operations. Our continuing run-off revenues are not considered significant, and there is no significant continuing involvement with the discontinued operations of the mortgage business. The following table presents the revenues included in discontinued operations:

	Years Ended December 31,	
	2007	2006
Revenues from discontinued operations	\$ 1,200	\$ 12,419
Run-off subscription revenues included in revenues from discontinued operations	\$ 895	\$ 5,774

Note 5: Closure of Satellite Sales and Service Center

On July 31, 2007, we closed our satellite sales and service center in Yakima, Washington, classifying the related leasehold improvements and other assets as held for sale. Additionally, during the third quarter of 2007, we recognized an impairment charge of \$1,200 to reduce these assets to their estimated fair value less selling costs, resulting in a net book value of \$418. In connection with this plan, we reduced our workforce by approximately 100 employees and paid severance and other charges related to the closure of \$545.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the first quarter of 2008, we terminated our lease for the Yakima facility. We did not pay a fee to terminate the lease. In a related transaction, we assigned our purchase option for the Yakima facility and transferred all remaining assets in the facility to a third party for net cash of \$1,209. We recorded a related gain of \$791 in the first quarter of 2008.

Note 6: Earnings Per Share

Basic earnings per share are calculated by dividing net income or loss by the weighted average number of shares outstanding during the year.

Diluted earnings per share are calculated by dividing net income or loss by the weighted average common shares outstanding plus dilutive potential common stock. Potential common stock includes stock options and warrants, the dilutive effect of which is calculated using the treasury stock method.

Unvested restricted stock units are considered outstanding common shares and included in the computation of basic earnings per share as of the date that all necessary conditions of vesting are satisfied. Restricted stock units are excluded from the dilutive earnings per share calculation as their impact is antidilutive. Prior to satisfaction of all conditions of vesting, unvested restricted stock units are considered contingently issuable and were excluded from weighted average common shares outstanding.

The basic and diluted net income per share is calculated as follows:

	Years Ended December 31,		
	2008	2007	2006
Net (loss) income from continuing operations	\$ (13,119)	\$ (12,569)	\$ 3,328
Net income (loss) from discontinued operations		194	(6,466)
Net (loss) income	\$ (13,119)	\$ (12,375)	\$ (3,138)
Weighted average common shares outstanding	24,293	24,520	25,374
Dilutive effect of stock options			1,112
Diluted Shares	24,293	24,520	26,486
Net (loss) income per share basic:			
Continuing operations	\$ (0.54)	\$ (0.51)	\$ 0.13
Discontinued operations	\$	\$ 0.01	\$ (0.25)
Net basic loss per share	\$ (0.54)	\$ (0.50)	\$ (0.12)
Net (loss) income per share diluted:			
Continuing operations	\$ (0.54)	\$ (0.51)	\$ 0.13
Discontinued operations	\$	\$ 0.01	\$ (0.24)
Net diluted loss per share	\$ (0.54)	\$ (0.50)	\$ (0.12)
Antidilutive stock options	4,268	4,121	1,848
Unvested restricted stock	1,534	1,491	

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 7: Cash, Cash Equivalents and Short-Term Investments**

At December 31, 2008, cash, cash equivalents, and short-term investments consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
Cash	\$ 1,637	\$	\$ 1,637
U.S. Treasury bills	9,996	4	10,000
Money market account	36,035		36,035
Cash and cash equivalents	\$ 47,668	\$ 4	\$ 47,672

	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
U.S. Treasury bills	\$ 9,980	\$ 18	\$ 9,998
Certificate of Deposit	1,000	6	1,006
Short-Term investments	\$ 10,980	\$ 24	\$ 11,004

As of December 31, 2008, the U.S. Treasury bills and certificates of deposit are classified as held-to-maturity and the U.S. Treasury bills are carried at amortized cost. The estimated fair value of the U.S. Treasury bills is based on quoted market prices for identical investments. The estimated fair value of the certificate of deposit is based on a CD pricing model. All of our investments have a contractual maturity of one year or less.

At December 31, 2007, cash, cash equivalents, and short-term investments consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
Cash	\$ 1,028		\$ 1,028
Money market account	34,422		34,422
Cash and cash equivalents	\$ 35,450		\$ 35,450

	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
Auction Rate Securities	\$ 27,400		\$ 27,400

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Short-Term Investments

\$ 27,400

\$ 27,400

As of December 31, 2007, short-term investments consisted of auction-rate securities and were classified as available-for-sale. These investments had contractual maturities beyond ten years and were classified as short-term based on their 7 to 35-day interest rate reset periods and based on our intent and ability to sell or otherwise convert to cash. Because of the very short interest rate reset periods as well as the liquidation of all of the auction rate securities at par in January 2008, the carrying amounts at December 31, 2007 are equivalent to fair value.

We have not realized any gains or losses on our short-term investments in the periods presented.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth by level, within the fair value hierarchy, financial assets and liabilities accounted for at fair value under SFAS 157 as of December 31, 2008. As required by SFAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2008	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money Market Funds	\$ 36,035	\$ 36,035		

Note 8: Property and Equipment, Net

Property and equipment, net of related depreciation and amortization consists of the following:

	December 31,	
	2008	2007
Computer equipment and software	\$ 6,345	\$ 6,616
Internally developed software	8,808	6,513
Office equipment and furniture	1,711	2,144
Leasehold improvements	1,447	2,432
	18,311	17,705
Less: accumulated depreciation and amortization	(13,859)	(11,518)
	\$ 4,452	\$ 6,187

Internally developed software costs include external direct costs and internal direct labor and related employee benefits costs. Internally developed software costs totaled \$3,511 and \$3,741, net of accumulated amortization at December 31, 2008 and 2007, respectively. Capitalized costs are amortized on a straight-line basis over the estimated useful life of the software once it is available for use. Amortization of capitalized internally developed software costs was \$2,672, \$2,175 and \$2,007 for 2008, 2007 and 2006, respectively.

Based on the continued challenging market conditions in the real estate market and a decline in our stock price, we evaluated the recoverability of our long-lived assets and assessed potential impairment based on the other estimated fair values of the underlying assets. We determined that no impairment charge was required related to our long-lived assets at December 31, 2008. In December of 2007, we recorded an impairment charge of \$1,331 related to long-lived assets.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9: Acquired Intangible Assets, Net**

Intangible assets and related accumulated amortization consists of the following:

	December 31,	
	2008	2007
Cost:		
Vendor agreements	\$ 1,390	\$ 1,390
Customer base	1,686	1,901
Developed technology	3,580	3,256
Tradename	1,645	1,976
Domain names	383	383
Total cost	8,684	8,906
Accumulated amortization:		
Vendor agreements	(1,390)	(1,390)
Customer base	(1,044)	(706)
Developed technology	(1,392)	(181)
Tradename	(384)	(66)
Domain names	(295)	(233)
Total accumulated amortization	(4,505)	(2,576)
Acquired Intangible Assets, net	\$ 4,179	\$ 6,330

During 2007, we recorded additions to intangible assets of \$6,497 related to the Realty Generator acquisition described in note 2. The intangible assets acquired and their respective weighted average lives are as follows:

	Finalized 2007 Amount	2007 Weighted Average Life
Developed technology	\$ 3,580	3.0 years
Customer base	1,050	3.0 years
Tradename	1,645	5.0 years
	\$ 6,275	3.4 years

Future amortization expense is expected to be as follows over each of the next five years:

	Total
2009	\$ 1,921

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2010	1,650
2011	332
2012	276
Total	\$ 4,179

During the fourth quarter of 2006, our business outlook for our mortgage business had deteriorated as the highly competitive mortgage market faced increasing economic and competitive challenges, especially for new

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

market entrants like Market Leader. As a result, we recorded an impairment charge of \$2,976 to the intangible assets related to our acquisition of The Loan Page. We made the decision to exit the mortgage lead generation business in January 2007, as discussed in note 4. Accordingly, these impairment charges are reflected as a component of discontinued operations in the accompanying 2006 statement of operations.

Note 10: Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed in business combinations accounted for under the purchase method. During 2008 and 2007, we recorded additions to goodwill of \$828 and \$3,833, respectively, related to the acquisition of Realty Generator.

We evaluate goodwill at least annually for impairment, in the fourth quarter, or when circumstances indicate the carrying value of goodwill may not be recoverable. Based on the continued challenging market conditions in the real estate market and a decline in our stock price, we performed goodwill impairment testing for the quarter ended September 30, 2008. The estimated fair value of our single reporting unit was calculated based on our market capitalization, control premiums evident in market transactions, multiples of relevant comparable peer companies and a discounted cash flow analysis. We determined that goodwill was not impaired at September 30, 2008.

Continued deterioration of market and economic conditions combined with the further decline in our stock price caused us to evaluate goodwill for impairment again in the fourth quarter of 2008 which is the usual timing of our annual goodwill impairment analysis. Our evaluation incorporated the impact of difficult market conditions on our near term forecasted operations and cash flows and the decline in our stock price and other factors. As a result we recorded an impairment charge to goodwill of \$4,883 at December 31, 2008.

We performed our 2007 annual goodwill impairment test in the fourth quarter of 2007, incorporating information on our recent history of operating losses, difficult market conditions in the residential real estate market that impacts our near term forecasted operations and cash flows, and the decline in our stock price, particularly in the fourth quarter. As a result we recorded an impairment charge to goodwill of \$3,605 at December 31, 2007.

We have recognized an aggregate of \$11,698 of goodwill impairment expense for 2008, 2007 and 2006.

Note 11: Accrued Expenses and Other Current Liabilities

The following table summarizes our accrued expenses and other current liabilities:

	December 31,	
	2008	2007
Accrued advertising	\$ 372	\$ 1,122
Accrued legal and professional fees	220	136
Accrued services	156	97
Accrued payments in connection with acquisitions	155	173
Accrued business taxes and escheat	59	77
Other	149	204
	\$ 1,111	\$ 1,809

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 12: Self Insurance**

We are self insured for our medical and dental coverage and carry a stop-loss policy, which protects us from any individual claim exceeding \$100 for the plan year or when cumulative claims exceed 120% of expected claims for the plan year. We record estimates of the total cost of claims incurred as of the balance sheet date based on an analysis of historical data and independent estimates. Our liability for self-insured medical and dental claims was \$75 at December 31, 2008.

Note 13: Income Taxes

Income tax expense from continuing operations is comprised of the following:

	Years Ended December 31,		
	2008	2007	2006
Current	\$ 9	\$ (1,106)	\$ 3,780
Deferred	(4,468)	(3,283)	(3,528)
Valuation allowance	4,468	6,343	
	\$ 9	\$ 1,954	\$ 252

A reconciliation of the statutory federal income tax rate to the effective tax rate for continuing operations is as follows:

	2008	2007	2006
Statutory federal rate	34.0%	35.0%	35.0%
Tax exempt interest	0.1%	5.4%	(26.0%)
Other permanent differences	(0.1%)	1.0%	(2.0%)
Valuation allowance	(34.1%)	(59.8%)	
Effective tax rate	(0.1%)	(18.4%)	7.0%

The tax effects of temporary differences that give rise to significant components of deferred tax assets and liabilities are as follows:

	December 31,	
	2008	2007
Deferred tax assets:		
Allowances and accruals	\$ 124	\$ 227
Stock-based compensation	3,075	2,357
Acquired intangible assets	4,559	2,824
Deferred rent	201	354
Net operating loss carryforward	2,863	1,212
Alternative minimum tax credit	247	247
Minority investment in ActiveRain	736	57
Valuation allowance	(10,636)	(6,343)

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Total deferred tax assets	1,169	935
Deferred tax liabilities:		
Property and equipment	(927)	(510)
Prepays, discounts and other	(242)	(425)
Total deferred tax liabilities	(1,169)	(935)
Net deferred tax asset	\$	\$

Table of Contents

Market Leader, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our deferred tax assets and liabilities are expected to reverse over the next five years, except for the net operating losses. We believe that based on the decline in the national real estate market, our recent history of operating losses and the lack of carryback periods, it is more likely than not that we will be unable to generate sufficient taxable income to realize our deferred tax assets. As a result, we have established a valuation allowance for the full amount of our net deferred tax assets.

Included in the summary of deferred tax assets and liabilities are those related to The Loan Page acquisition. The net operating losses generated by The Loan Page prior to the date of acquisition were recognized as deferred tax assets to the extent they are available to offset our future taxable income. Because of the tax regulations regarding a change in ownership, our use of these net operating losses is limited to \$222 annually.

In addition to the deferred tax assets disclosed above, we have excess tax-deductible goodwill related to The Loan Page acquisition that we cannot recognize as a deferred tax asset to the extent that it exceeds the goodwill we reported for financial reporting purposes. In 2008 and 2007, the realized tax deductions for the excess tax-deductible goodwill were recorded as a reduction to income tax expense. During 2006, the realized tax deductions for the excess tax-deductible goodwill reduced the carrying amount of goodwill related to the acquisition by \$124. At December 31, 2008 the balance of the unamortized excess tax-deductible goodwill was \$3,541, which would result in an expected tax benefit of \$1,204 applying the 34% statutory rate.

At December 31, 2008, our gross net operating loss carryforwards were \$8,420 and will begin to expire in 2023. Gross net operating loss carry forwards may be subject to an annual limitation under relevant tax laws.

We adopted the provisions of FIN 48 on January 1, 2007. We did not recognize any adjustments to our financial statements as a result of our implementation of FIN 48. At December 31, 2008 and 2007, we did not have any unrecognized tax benefits, nor did we have any interest or penalties accrued. We have concluded all U.S. federal income tax matters for years through 2005 and state and local taxes for years through 2004.

Note 14: Note Payable

As part of our acquisition of The Loan Page we assumed a note payable with a face amount of \$1,680 and a contractual interest rate of 3.55%. Upon acquisition, the note was discounted to a fair value of \$1,590 to reflect an effective yield of 8.2%. The note was paid in full in December 2008, including accrued interest, for a total payment of \$2,000.

Note 15: Commitments and Contingencies

Our corporate offices in Kirkland, Washington are leased under terms of a noncancelable operating lease. This lease has a six-year term that commenced in December 2004 and includes an option to extend the lease term for five years beyond the initial commitment period.

In connection with the Kirkland lease, the landlord provided a tenant improvement allowance to cover the costs of remodeling the space, office furnishings, and moving expenses. The allowance of \$1,718 has been recorded as deferred rent and is being recognized as rent expense over the initial term of the lease on a straight-line basis.

Our facility lease contains free rent periods and predetermined fixed escalations. We recognize rent expense on a straight-line basis and record the difference between the recognized rental expense and amounts payable under the leases as a deferred liability, which is included as a component of deferred rent on the accompanying consolidated balance sheets.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a schedule by year of future minimum payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2008.

2009	793
2010	819
2011	13
	\$ 1,625

Rent expense totaled \$1,059, \$1,314 and \$1,311 during 2008, 2007 and 2006, respectively.

Note 16: Stock Option Plans and Stock-Based Compensation***Equity Based Award Plans***

We issue stock options and restricted stock units to our employees under the terms of the 2004 Equity Incentive Plan, which became effective on completion of our initial public offering in December 2004. Prior to December 15, 2004 we issued options and restricted stock units under the 1999 Plan. The 1999 Plan was terminated on December 15, 2004 with respect to new grants, and no further options will be granted under the 1999 Plan. Unallocated shares created by subsequent cancellations of options are transferred automatically to the 2004 Plan.

Expense Recognition

Effective January 1, 2006, we adopted SFAS 123R, which establishes accounting for stock-based awards exchanged for employee services, using the modified prospective transition method. Accordingly, stock-based compensation cost is measured at grant date based on the fair value of the award, and expensed over the requisite service period.

Stock Option Fair Value Determination

Valuation and Recognition Method. We estimate the fair value of stock-based awards granted using the Black-Scholes option valuation model. We amortize the fair value of all awards on a straight-line basis over the requisite service periods, which are generally the vesting periods.

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. We determine the expected life based on our limited historical experience and in years prior to 2008 on the estimates of other companies similar to ours, giving consideration to the contractual terms, vesting schedules, pre-vesting and post-vesting forfeitures and expected employees' exercise behavior.

Expected Volatility. We estimate the volatility of our common stock at the date of grant based on the limited historical volatility of our common stock and in years prior to 2008 on the experience of what we believe are peer companies based on the similar nature of our industry and option plan characteristics. We have used a volatility factor that considers our historical experience and that of these peer companies using a period commensurate with the expected life of the award.

Risk-Free Interest Rate. We base the risk-free interest rate used in the Black-Scholes option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with a term equivalent to the expected life of the award.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Expected Dividend Yield. We do not anticipate paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes option valuation model.

Expected Forfeitures. We use historical data to estimate pre-vesting option forfeitures. We record stock-based compensation only for those awards that are expected to vest.

The value of each employee option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Years Ended December 31,		
	2008	2007	2006
Weighted average expected risk-free interest rate	2.53%	4.77%	4.61%
Weighted average expected volatility	52%	75%	82%
Expected life (in years)	3.5 years	3.2 years	3.0 years
Expected dividend yield	0%	0%	0%
Weighted average fair value	\$ 1.07	\$ 2.61	\$ 3.85

Our stock options typically vest on a graded basis over a four year period and typically expire the earlier of ten years from the date of grant or ninety days following termination of employment.

Stock Option Activity

Options granted, exercised, canceled and expired under all of our stock option plans are summarized as follows:

	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2007	3,085,228	\$ 5.75	\$ 3.28		
Options granted	1,178,800	2.67	1.06		
Options exercised	(123,064)	2.12	1.07		
Options forfeited	(636,635)	5.71	3.22		
Options expired	(268,440)	7.60	4.72		
Outstanding at December 31, 2008	3,235,889	\$ 4.62	\$ 2.45	7.2 years	\$ 10
Exercisable at December 31, 2008	1,777,247	\$ 5.47	\$ 3.10	5.5 years	\$ 10

The aggregate intrinsic value of options outstanding at December 31, 2008 is calculated as the difference between the market price of the underlying common stock and the exercise price of the options for the options with exercise prices that were lower than the closing market price of our common stock at period end. The total intrinsic value of options exercised and the total grant date fair value of options that vested and were forfeited are included in the following table.

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	Years Ended December 31,		
	2008	2007	2006
Intrinsic value of options exercised	\$ 67	\$ 845	\$ 3,005
Grant date fair value of options vested	\$ 1,885	\$ 3,723	\$ 4,502
Grant date fair value of options forfeited	\$ 3,637	\$ 5,128	\$ 5,527

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Stock Awards**

During 2007 and 2008, we granted restricted stock units to our executives and certain key employees under the 2004 Plan. These stock awards entitle the holder to shares of common stock as the award vests over an average vesting period of two to three years. We measure the fair value of restricted stock units based upon the market price of the underlying common stock on the date of grant, reduced by the present value of future dividends, if any. The restricted stock units are amortized over their applicable vesting period using the straight-line method reduced for estimated forfeitures.

During 2008, the following activity occurred related to our restricted stock units:

	Stock Awards	Weighted Average Grant Date Fair Value
Nonvested stock award balance at December 31, 2007	1,491,000	\$ 3.78
Restricted stock units granted	943,000	2.83
Units upon which restrictions lapsed	(297,890)	3.83
Restricted stock units forfeited	(602,080)	3.65
Nonvested stock award balance at December 31, 2008	1,534,030	\$ 3.24

Stock-based Compensation

The following table summarizes stock-based compensation expense for the respective periods:

	Years Ended December 31,		
	2008	2007	2006
Total cost of share-based payment plans	\$ 3,505	\$ 3,688	\$ 4,241
Amounts capitalized in internally developed software	(180)	(125)	(129)
Amounts charged against income, before income tax benefit	\$ 3,325	\$ 3,563	\$ 4,112
Amount of related income tax benefit recognized in income	\$ 1,125	\$ 1,219	\$ 1,374
Amounts recognized in income for amounts previously capitalized in fixed assets	\$ 117	\$ 48	\$ 17

In 2008 and 2007, we recognized a full valuation allowance against the income tax benefit resulting from our stock-based compensation, reducing the net benefit on the income statement to zero.

As of December 31, 2008, we had \$5,841 of unrecognized compensation cost related to non-vested stock-based awards granted under all equity compensation plans. We expect to recognize this cost over a weighted average period of 1.48 years.

Table of Contents**Market Leader, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 17: Common Stock*****Common Stock Reserved for Future Issuance***

The following table sets forth the shares of common stock reserved for future issuance:

	December 31, 2008
Options outstanding under the 1999 Stock Option Plan	1,124,036
Options and unvested stock awards outstanding under the 2004 Equity Incentive Plan	3,645,883
Additional equity awards that can be issued under the 2004 Equity Incentive Plan	1,089,717
Common stock reserved for future issuance	5,859,636

An additional 700,000 shares was authorized for issuance effective January 1, 2009 under the automatic annual increase provisions of the 2004 Equity Incentive Plan. We issue new shares for option exercises.

Note 18: 401(k) Plan

We provide a defined contribution 401(k) plan for our employees. Participating employees may contribute a portion of their salary to the plan up to the maximum allowed by the federal tax guidelines. Additionally, we may make discretionary contributions to the plan. To date, no discretionary contributions have been made to the plan.

Note 19: Supplemental Disclosures of Cash Flow Information

	Years Ended December 31,		
	2008	2007	2006
Cash (received) paid during the period for income taxes	\$ (895)	\$ (2,010)	\$ 907
Cash paid during the period for interest	\$ 410	\$	\$
Noncash investing and financing activities:			
Accrued property and equipment purchases	\$	\$	\$ 104
Accrued payments in connection with acquisitions	\$ 155	\$ 228	\$

Table of Contents**Market Leader and Subsidiaries****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

(Dollars in thousands)

Column A	Column B Balance at Beginning of Period	Column C Additions	Column D Deductions	Column E Balance at End of Period
Description				
Allowance for doubtful accounts:				
Year ended:				
December 31, 2008	\$ 50	\$ 794	\$ 815(A)	\$ 29
December 31, 2007	\$ 161	\$ 958	\$ 1,069(A)	\$ 50
December 31, 2006	\$ 242	\$ 3,189	\$ 3,270(A)	\$ 161

(A) Deductions consist of write-offs of uncollectible accounts, net of recoveries.

Column A	Column B Balance at Beginning of Period	Column C Additions	Column D Deductions	Column E Balance at End of Period
Description				
Valuation allowance for deferred tax assets:				
Year ended:				
December 31, 2008	\$ 6,343	\$ 4,293	\$	\$ 10,636
December 31, 2007	\$	\$ 6,343	\$	\$ 6,343