Market Leader, Inc.
Form 10-K
March 19, 2012
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# 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, 2011**

**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)**

| | |
|---|---|
| **Washington** | **91-1982679** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **11332 NE 122nd Way, Suite 200 Kirkland, WA** | **98034** |
| **(Address of Principal Executive Offices)** | **(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 x

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 x

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 x No ¨

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

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

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, 2011 as reported on The Nasdaq Global Select Market was approximately $46,906,000.

As of March 9, 2012, there were outstanding 25,453,970 shares of the registrant s common stock which is the only class of common stock of the registrant.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Market Leader, Inc. s definitive proxy statement for its 2012 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.

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**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. Other than statements of historical fact, all statements made in this Annual Report on Form 10-K are forward-looking, including, but not limited to, statements regarding industry prospects, future results of operations or financial position (including our revenue and expense expectations in 2012 and our liquidity expectations), and statements of our intent, belief and current expectations about our strategic direction, prospective and future financial results and condition. The words will, should, plan, estimate, 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 the company s actual results include its ability to retain and increase its customer base, to continue to grow revenues, to continue to maintain current customer retention levels, to respond to competitive threats and real estate market conditions, to reduce advertising expenses, to achieve payback on its investment in RealEstate.com in three years or less, to develop new products, to develop new revenue sources from its RealEstate.com assets, and expand into new lines of business and other matters discussed in Risk Factors contained in Item 1A. of this Annual Report on Form 10-K. Given these risks and uncertainties, you should not place undue reliance on our forward-looking statements. The inclusion of such forward-looking statements should not be regarded as a representation that contemplated future events, plans or expectations will be achieved. 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 of these statements to reflect events or circumstances after the date hereof.*

*Unless the context requires otherwise, the terms Market Leader, the Company, we, us and our refer to Market Leader, Inc. and its subsidiaries.*

**Company Background and Overview**

Market Leader provides innovative online technology and marketing solutions for real estate professionals across the United States and Canada. We serve more than 100,000 real estate agents, brokerages and franchisors, offering an end-to-end marketing solution that enable them to grow and manage their businesses. Market Leader s subscription-based marketing software including websites, contact management, a marketing center, and advertising services helps customers generate a steady stream of prospects, plus provides the systems and training they need to convert those prospects into clients. In addition, our national real estate websites, including www.RealEstate.com, give our customers access to millions of future home buyers and sellers, while providing these buyers and sellers with free access to the information they seek.

We offer our services to real estate professionals, both directly and through marketing partnerships with leading franchise networks. We further expanded our sales range and reach with the announcement on January 10, 2011 of our selection by Keller Williams Realty International to provide our comprehensive end-to-end marketing solution to its entire franchise organization of approximately 80,000 professionals. We continued the success of our major franchise sales channel as demonstrated by the announcement of our selection on March 8, 2012 by Century 21 Real Estate LLC to provide our comprehensive solution to their franchise organization in the U.S.

At the core of our value proposition is a comprehensive software-as-a-service-based marketing solution for real estate professionals. We provide a personalized, customer-branded website, with full multiple listing service (MLS) integration, that is optimized to generate consumer response. We also enable real estate professionals to leverage a library of sales and marketing materials in order to design, create, publish, and manage their own

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personalized marketing campaigns. And we provide tools to generate traffic and leads and engage with all of their contacts and clients through our proprietary customer relationship management tool. All of these services are delivered as one tightly integrated solution that we believe is unparalleled in comprehensiveness, power, and ease of use.

Our software-as-a-service based products are delivered primarily through a single flexible and robust software platform that can be configured and integrated with other services to create customized solutions.

These software-as-a-service based products extend our legacy as an innovator of internet-based marketing services for real estate professionals since our inception.

Founded by a second-generation real estate agent, 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.

Our original business model pioneered lead-generation services for real estate agents. Our traditional lead-generation products, HouseValues® and JustListed®, deliver home seller or buyer leads to customers via an online software tool that is bundled with the offerings.

These traditional products drove extremely rapid growth in our early years that was aided in part by a robust residential real estate market. When the slowdown in real estate transactions led to declines in our traditional business, we adapted by significantly reducing expenses in all categories. Sales efforts associated with traditional products were curtailed and related development was discontinued. By utilizing the cash flows of our traditional business, we preserved our capital, enhanced our ability to invest in new products, and ultimately rebuilt the Company around more powerful offerings.

Key among these investments in new products was our acquisition of substantially all of the assets of Realty Generator, LLC in late 2007 for $11.2 million in cash and assumed liabilities. In addition to gaining access to a broader set of customers as a result of the acquisition, we leveraged the acquired technology and business model to develop our primary software-as-a-service based products and thereby achieved a key intended benefit of the acquisition.

In 2008 we shifted our business model from our original lead-generation model to software-as-a-service based offerings, which now represent the majority of our revenue.

In 2011 we continued to enhance our software-as-a-service based offering and our presence in the marketing services segment through our acquisitions of SharperAgent and RealEstate.com. We plan to integrate SharperAgent s marketing campaign, design, and print capabilities into our software platform and expect to offer this to all of our customers in 2012. In addition, through our acquisition of assets relating to Realestate.com, we believe we are positioned to capture part of the industry s marketing services spend that is migrating away from print, as well as marketing services spend that is moving online to national online portals.

**Services for Our Customers Real Estate Professionals**

We provide the majority of our real estate professional customers with software-as-a-service-based marketing services, a bundle of services that may include some or all of the following:

- Software-as-a-service tools, including customer relationship management (CRM) tools, personalized websites, marketing tools, and content designed to help our customers build relationships with prospective home buyers and sellers over the Internet.

These online prospect management systems 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 our customers to focus on transacting their current business while efficiently marketing their services to potential clients to maintain a pipeline of future business opportunities. Our CRM tools also include proprietary real estate content and consumer email campaigns that our customers use to position themselves as highly engaged, technology-savvy neighborhood experts. By incorporating a tightly integrated, agent-branded website, these systems offer the added advantage of real-time insight into consumer online behavior. Our customers are also able to leverage the marketing campaign management tools, print, and design center capabilities of our CRM .

Community and training services that enable our customers to share and learn best practices to help them close more business with Internet consumers.

Customers of our premium software offerings are invited to participate in company-hosted group coaching calls and peer-to-peer best practices training conference calls. Performance measurement and benchmarking tools built into these products also enable comparison of key performance factors to those of successful producers while highlighting areas for improvement. These community and training services also include ActiveRain. With over 200,000 members, ActiveRain was identified as the leading professional and social media site focused on the real-estate industry identified by the National Association of Realtors 2010 REALTOR® Technology Survey Report.

Leads in the local neighborhoods where our customers do business.

We offer our products for a monthly fixed fee. Customers on our core software-as-a-service platform generally buy advertising services in addition to their software-as-a-service subscription, and they have the flexibility to adjust their advertising expenditures as their business needs dictate.

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 website traffic and leads generated for our customers through our network of websites and national advertising expertise is enhanced when combined with our integrated offerings that help our customers convert these leads into closed transactions.

We believe that our specialized real estate lead-generation capabilities provide a competitive advantage for our customers. We use direct-response advertising to drive prospective home buyers and sellers to our real estate-oriented websites. We regularly advertise on major Internet search engines and other websites, and supplement this advertising with national and local television advertising and other media to help manage and geographically target consumer traffic and lead volume.

**How We Generate Revenues**

We generate the majority of our revenues from the services we provide to real estate professionals. We charge real estate professionals set-up fees and ongoing monthly fees for our software-as-a-service tools. We also generate revenue from advertising and print services.

We recognize monthly fees as revenue in the month that the service is provided, and we recognize revenue from set-up fees on a straight-line basis over the estimated customer life.

We also generate revenues through marketing partnerships with leading franchise networks. We currently generate revenue through this channel from our agreement with Keller Williams which provides for minimum payments from Keller Williams in order to make our base level product available to every Keller Williams agent and brokerage. In addition, we generate revenue through sales of premium products to individual agents, teams and brokerage offices. As with all our software-as-a-service products, revenue from the premium products is billed monthly and recognized in the month service is provided.

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**Our Expenses**

The largest components of our expenses are personnel and marketing costs. Personnel 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 websites and to promote our services to potential customers residential real estate professionals.

**Geographic Areas**

We generate most of our revenue from customers in the United States. For the years ended December 31, 2011 and 2010, revenue generated from customers located within the United States was $31.7 million and $21.7 million, respectively. The rest of our revenue is primarily from Canada.

**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 and that several factors contribute to our competitive advantage.

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, in 2011 approximately 88% of home buyers used the Internet to search for homes and approximately 66% selected the first real estate agent they interviewed. By helping real estate agents provide market and listing information early in the consumers home buying process, our products help position the agent to win the business of assisting these consumers in their home buying and selling transactions.

We believe that the competitive advantage our comprehensive real estate marketing and business platform provides is greatest in engagements with large franchise networks and brokerage companies. These firms are increasingly seeking to competitively differentiate themselves through technology solutions designed to help recruit and retain agents, as well help make them successful. We believe Market Leader s highly-integrated platform delivers much more value and convenience than others products whose functionality is limited to a narrow segment. We expect to further enhance the value we deliver to customers as we continue to expand the breadth of our solution.

The size and geographic breadth of our customer base creates efficiencies in consumer lead-generation, website 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, which we believe we have developed. The challenges we encountered building our customer base while expanding our nationwide presence will be encountered by other entrants as they seek to establish and grow competitive offerings.

Finally, we have 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 their success and satisfaction can lead to strong customer retention and high lifetime customer value.

Our current competitors include online companies focused on residential real estate, internet media companies, traditional real estate brokerage firms, discounted and non-traditional real estate brokerage firms, and traditional sellers of advertising to real estate professionals.

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**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.

*Software-as-a-Service offerings* Our software-as-a-service based products include websites that we provide to our customers to enable consumers to research home listings and comprehensive neighborhood information online. These websites are tightly integrated with our proprietary CRM tool. Our CRM tools are also integrated with marketing campaign, print, and design center capabilities for customers. We have focused our ongoing development efforts on the software-as-a-service based products, which drove the majority of our revenue in 2011 and enable us to enjoy stronger customer retention compared to our traditional products. Additionally, ActiveRain has a variety of software-as-a-service offerings including professional networking and online marketing services for real estate professionals.

*Advertising Management Systems* We have built systems to deliver website traffic to our customers and consider our advertising capabilities to be a key competitive advantage. We have developed systems to efficiently provide advertising services for thousands of websites, including our own as well as sites we operate on customers behalf. Through our systems we interact with thousands of Internet-enabled consumers every day, driving traffic to these websites and enabling tracking and testing so that we can monitor visitor conversion metrics. We also have geography-targeted, business-rule driven traffic routing and lead management systems that enable us to manage traffic and lead flow and to optimize monetization across our agent and broker customer base.

*National Real Estate Web Sites* We provide our customers access to millions of future home buyers and sellers, while providing consumers with free access to the information they seek.

*Training Systems* We provide our customers with marketing materials, training and support, including online training and certification programs.

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

**Intellectual Property**

To protect our proprietary rights, we rely on a combination of trademark, copyright and trade secret laws, confidentiality agreements with our employees and consultants, and confidentiality provisions in our vendor and client agreements. We currently have forty-three trademarks registered in the United States and five trademarks registered in Canada. We have three patents registered in the United States. Applications for additional trademarks are pending for our product names and certain words and phrases that we use in our business. We have one pending patent application in the United States. We also rely on copyright laws to protect computer programs relating to our websites and our proprietary technologies although to date we have not registered for copyright protection. 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.

**Employees**

As of December 31, 2011, we had 248 employees located primarily in or near Seattle, Washington and Denver, Colorado. 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 Internet address is *www.marketleader.com*. On the Investor Relations Financial Information section of our website, 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 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 website is not a part of this or any other report filed with or furnished to the SEC. The SEC maintains a website (*www.sec.gov*) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549, on official business days during the hours of 10:00 am to 3:00 pm, 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 five 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 rate of adoption of our software-as-a-service based products, the success of our efforts to upsell customers from promotional offers to higher revenue services, the rate of decline in revenues from our traditional lead-generation products, 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.

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.

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***Our operating results have been and may continue to 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. 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. See Item 1 Business Competition for a discussion of our competitors.

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;
- 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. We cannot assure you that any new products or other expansion efforts will be successful.

***Our business model is evolving and our future operating results are unpredictable.***

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 constantly evolving. Further, because our newer software-as-a-service 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.

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***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 real estate professional 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 the ongoing negative trends in the real estate industry.

***Any failure to retain customers could harm our business.***

Our ability to retain our real estate professional customers will depend on our ability to generate website 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 our customers, and 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 website 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.

***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 automatic one-month extensions at the end of their term, 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.

***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;

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- 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.

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 assets, 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 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. If, as a result of our periodic review and evaluation of our 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 impairment charges. If market and economic conditions deteriorate further, this could increase the likelihood that we will need to record 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 exceed the fair value of our overall business, which could adversely impact our results of operations.

***We rely heavily on advertising to generate leads for customers.***

We rely heavily on advertising to attract consumers to our websites 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 websites. 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.

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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 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.

***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 websites, such as email addresses, home addresses and geographic preferences, could keep them from using our websites and thereby reduce the number of leads we generate. Industry-wide events or events with respect to our websites, 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 websites to conduct transactions that involve the transmission of confidential information, which could harm our business.

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 websites, 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 system 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.

***We rely on information from real estate multiple listing services provided by third parties that we do not control.***

The websites we provide to our software-as-a-service based 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 customers with functionality 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 websites and the automated email functionality are supplied only in markets in which we, our broker customers, or the broker affiliated with our agent customers have a relationship with the local multiple listing service (MLS). 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 products depends in part on our continued ability to provide customers with MLS listings and data, as well as our ability to expand listings in markets in which it is not currently available. 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 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.

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***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. However, 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 by customers that is posted on or disseminated through our websites. 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 lead-generation 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 systems 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.

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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.

***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 forty-three registered trademarks registered in the United States and five trademarks registered in Canada. We have three patents registered in the United States. We have sought registration for a number of additional trademarks. We have not sought registration for any copyrights. We have three patents registered and have one patent pending application in the United States. 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 applications, and any trademarks we may be granted may be successfully challenged by others or invalidated. If our trademark applications are not approved or if our trademarks 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 websites, 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 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

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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.

***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, 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, which 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.

***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.

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***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.

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 we fail to comply with these standards, we could be subject to fines and our 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.

***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.

***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 31,000 square feet of commercial office space in the greater Seattle, Washington area and approximately 6,700 square feet in Denver, Colorado. The Seattle leases expire in 2013 and the Denver lease expires in 2012. All leases include options to extend the terms for periods between two and five years.

**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: MINE SAFETY DISCLOSURES**

Not applicable

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## 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 2010 (ended December 31, 2010)** | | |
| First Quarter | $ 2.19 | $ 1.88 |
| Second Quarter | 2.41 | 1.91 |
| Third Quarter | 2.15 | 1.74 |
| Fourth Quarter | 2.15 | 1.66 |
| **Fiscal 2011 (ended December 31, 2011)** | | |
| First Quarter | $ 3.00 | $ 1.75 |
| Second Quarter | 2.55 | 1.89 |
| Third Quarter | 2.40 | 1.90 |
| Fourth Quarter | 3.02 | 1.94 |

**Holders**

At March 9, 2012 there were approximately 21 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**

We did not repurchase any shares of our common stock during 2011. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Purchase and Retirement of Common Stock for information on stock repurchases during 2011.

**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, 2011, we have used all the net proceeds from our initial public offering to purchase property and equipment, intangible assets, and to complete acquisitions, including related earn-out payments.

### ITEM 6: SELECTED FINANCIAL DATA

Not applicable.

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**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 contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the inherent risks and uncertainties, including those discussed in the introductory paragraph to Item 1 Business and in Item 1A Risk Factors of this Annual Report. 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, founded in 1999, provides innovative online technology and marketing solutions for real estate professionals across the United States and Canada. We serve more than 100,000 real estate agents, brokerages and franchisors, offering complete end-to-end solutions that enable them to grow and manage their businesses. Our subscription-based real estate marketing software-including websites, contact management, a marketing and design center suite, and advertising services-helps customers generate a steady stream of prospects, plus provides the systems and training they need to convert those prospects into clients. In addition, our consumer real estate sites, including www.realestate.com, give our customers access to millions of future home buyers and sellers, while providing consumers with free access to the information they seek.

**Current Year Overview**

Market Leader s revenues grew 39% in 2011, driven by the strength of our software-as-a-service products and the addition of revenue from our acquisitions of ActiveRain and SharperAgent. During 2011 we significantly increased the number of real estate professionals that utilize our software platform to more than 100,000 from 19,000 at the beginning of the year, driven primarily by the addition of new customers from our relationship with Keller Williams Realty International ( Keller Williams ).

Our goal is to return the Company to profitable growth over time, and we believe that to do so requires continued investment in profitable customer acquisition to drive and sustain revenue growth. Our strategy includes initiatives to build and maintain sales and marketing channel partnerships with major franchise networks and large brokerage companies. These strategic relationships enable us to tap into their influence, credibility, and existing sales and marketing infrastructure to cost effectively acquire high-value customers.

We substantially enhanced our offerings in early 2011 with integration of a third-party transaction processing system and the addition of licensed marketing design center software. This created the first such integrated solution for real estate, according to Steve Murray, editor of REAL Trends, a leading source of analysis and information on the residential brokerage industry. The initial version of this significantly enhanced platform was configured to the requirements of Keller Williams with whom we signed a five year technology agreement announced in January 2011. This agreement provides for minimum payments from Keller Williams totaling approximately $10 million through the initial five-year term, beginning in April 2011 and paid on a quarterly basis. Under the agreement, Market Leader made its technology available to every Keller Williams agent and brokerage starting in the second quarter of 2011, and the majority of them have now activated this base level product. We now expect that strong sales of premium upgrades into the Keller Williams installed base combined with the contractual revenues will exceed $10 million in 2012.

We continued the success of our major franchise sales channel as demonstrated by the announcement of our selection on March 8, 2012 by Century 21 Real Estate LLC to provide our comprehensive solution to their franchise organization in the U.S. This agreement provides for minimum payments from Century 21 totaling

$2.55 million over an initial term of two years from the date of product launch, which is expected to occur in the second half of 2012. We also expect to generate additional revenue from premium upgrades as well as other technology and marketing services that will be made available to the Century 21 agents and brokerage offices in the U.S.

We continued to enhance our software platform in the third quarter of 2011 as we launched Market Insider®, a valuable tool for real estate professionals to engage buyers and sellers with customized, up-to-date reports of home sales, trends, demographics, and side-by-side statistics on the areas served. We further extended both our future technology advantage as well as our market reach with the August 1, 2011 acquisition of SharperAgent, LLC ( SharperAgent ) for $1.74 million in cash plus assumed liabilities. SharperAgent is a leading provider of online and print marketing suites that has relationships with leading brokerage companies and more than 30,000 real estate agent users across North America.

We plan to integrate SharperAgent s marketing campaign, design, and print capabilities into our software platform and expect to offer this to all of our customers in 2012. As a result, we terminated our licensing agreement with the third party marketing design center software in December 2011, and incurred a $1.45 million contract termination fee

On September 16, 2011, we acquired the assets of RealEstate.com for $8.25 million in cash. The acquired assets included the RealEstate.com website; trademarks and domain names, including RealEstate.com; software related to consumer web services; information, as well as contracts and content necessary to operate the RealEstate.com website. We judged this to be a low risk acquisition, based on our projected ability to utilize the leads generated on RealEstate.com sites to reduce our advertising costs, and to thereby drive a payback on our investment in three years or less. Based upon strong early response to the company s initial RealEstate.com offering, we now expect it to emerge as a powerful engine of growth as early as the second half of this year. The value that real estate professionals associate with RealEstate.com creates a way for Market Leader to capture part of the industry s marketing services spend that is migrating away from print, as well as marketing services spend that is moving online to national online portals.

We acquired, through incremental investment late in the third quarter of 2010, a controlling interest in ActiveRain Corporation ( ActiveRain ), and we subsequently increased that to 100% ownership in the fourth quarter of 2011. ActiveRain is a provider of professional networking, referral, recruitment, content syndication and online marketing tools packaged as software-as-a-service offerings. ActiveRain serves a growing community of over 200,000 professionals in real estate and related businesses. Our affiliation with ActiveRain provides access to a sizable and rapidly growing professional community that often has interest in products like those we offer.

In the first quarter of 2011, we acquired KWKLY, LLC ( *kwkly* ), a mobile software-as-a-service lead generation service. The *kwkly* service provides home buyers with real-time access to property information on their Web-enabled phones, while at the same time connecting real estate professional customers of *kwkly* with those home buyers. Our acquisition of *kwkly* expands the offerings that we can make available through our business and marketing platform for real estate professionals, and we expect to leverage this product more broadly into our customer base.

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**Results of Operations**

***Comparison of Years Ended December 31, 2011 and December 31, 2010***

*Revenues*

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2011 | 2010 | Change | Percent Change |
| | (dollars in thousands) | | | |
| Revenues | $ 34,025 | $ 24,430 | $ 9,595 | 39% |

2011 revenues increased 39% from last year, reflecting the successful expansion of our software solutions as demonstrated by the increase in the number of real estate professionals that utilize our software platform to more than 100,000 from 19,000 at the beginning of the year. This expansion of our customer base is due primarily to our Keller Williams initiative. In addition, ActiveRain contributed revenue of $2.7 million in revenue in 2011 compared to $0.7 million in revenue in 2010, while SharperAgent contributed $1.2 million in revenue.

Based upon our increased focus on and investment in customer acquisition, we expect similar revenue growth in 2012.

*Sales and Marketing*

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2011 | 2010 | Change | Percent Change |
| | (dollars in thousands) | | | |
| Sales and marketing expense | $ 27,757 | $ 23,908 | $ 3,849 | 16% |

Sales and marketing expenses consist primarily of customer acquisition costs and costs of service. These expenses take the form of online advertising expenses, salaries, commissions and related expenses for our sales, marketing and customer support staff. Other expenses include corporate marketing and communications expenses, print expense for customer purchased marketing materials, and merchant card processing fees.

Sales and marketing expense increased in 2011 due to the consolidation of SharperAgent s results beginning in the third quarter of 2011 and ActiveRain s results beginning in the fourth quarter of 2010. In addition, higher customer acquisition and customer support costs reflected increased staffing and marketing that was especially targeted toward franchise network relationships.

Advertising costs decreased in 2011 reflecting operational improvements in lead generation costs. In addition, we have shifted our revenue mix to now include revenue streams that do not have associated advertising costs.

In 2012, we expect to continue to invest in customer acquisition to support our plans for revenue growth. We expect modest increases in our customer support and servicing costs as we grow our customer base and continue to place an emphasis on customer retention. We expect advertising expenses will decrease as a percentage of revenue as we continue to shift our revenue mix to higher margin software revenue. We expect total sales and marketing spend to decrease as a percentage of revenue during 2012.

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*Technology and Product Development*

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2011 | 2010 | Change | Percent Change |
| | (dollars in thousands) | | | |
| Technology and product development expense | $ 8,209 | $ 5,358 | $ 2,851 | 53% |

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 costs are reduced for the costs of new product development that are capitalized.

Technology and product development expense increased in 2011 which reflects the higher technology licensing costs to support the Keller Williams initiative. In addition, personnel costs also increased due to the SharperAgent acquisition and in part to increased headcount to support our broader software platform as well as an increased pace of product innovation.

In 2012, we expect the level of technology and product development costs to increase modestly as we continue to focus on the integration of our new marketing suite and the development of new and innovative products. Licensing costs are expected to decrease by $0.6 million in the second half of 2012 at the end of a six-month third party licensing agreement related to the transitional services agreement discussed in the contract termination charge section below.

Technology expenses will fluctuate depending on the level of effort required to develop new products, net of costs that are subject to capitalization.

*General and Administrative*

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2011 | 2010 | Change | Percent Change |
| | (dollars in thousands) | | | |
| General and administrative expense | $ 6,840 | $ 5,920 | $ 920 | 16% |

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 expense increased primarily due to the inclusion of ActiveRain and SharperAgent, and to a lesser extent due to increased professional fees.

In 2012, we expect general and administrative expenses to increase in part from the addition of expenses related to our SharperAgent operations.

*Depreciation and Amortization of Property and Equipment*

Depreciation and amortization of property and equipment for 2011was consistent with the level in 2010.

*Amortization of Acquired Intangible Assets*

Amortization of intangible assets remained relatively consistent in 2011 when compared to 2010 as certain intangible assets became fully amortized offset by the addition of amortization on newly acquired intangible

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assets related to the RealEstate.com, SharperAgent, *kwkly* acquisitions, and amortization of intangible assests related to the acquisition of a controlling interest in ActiveRain towards the end of 2010 .

In 2012, we expect amortization expense to increase due to the continued amortization of the newly acquired intangible assets.

*Loss on Asset Disposition*

We had a loss on an asset disposition in the third quarter of 2011 of $174k as we elected to abandon previously capitalized software.

*Contract Termination Charge*

We terminated our agreement that had allowed for integration of third party marketing design software solution with the Company s marketing and business platform delivered as a software-as-a-service ( SaaS ) solution to Keller Williams real estate professionals as we will offer our own marketing, design, and printing capabilities as fully integrated components of our SaaS platform and products based on the solutions that were acquired as part of the August 2011 acquisition of SharperAgent. The termination was effective December 31, 2011. As a result, we were released from future minimum contractual liabilities totaling $2.6 million, as well as any and all future revenue sharing payments related to the revenue generated from the premium SaaS solutions being provided to Keller Williams professionals. We will pay early termination fees totaling $1.45 million.

Concurrently, both parties entered into a transitional services agreement for the period January 1, 2012 through June 30, 2012 for which we will pay $600,000.

*Interest Income and expense, net*

Interest income decreased in 2011 when compared to 2010 due to decreased rates of return on investments as well as lower balances of cash, cash equivalents and short-term investments.

*Income Taxes*

The majority of our deferred tax assets and liabilities are expected to reverse over the next five years, except for prior years net operating losses and the deferred tax liability related to goodwill deductions on the goodwill acquired in 2011. We believe that based on the decline in the national real estate market and our continued operating losses, 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.

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*Quarterly Consolidated Statements of Operations*

The following tables present the unaudited operational data for the eight quarters ended December 31, 2011. 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, 2011 | Sept. 30, 2011 | June 30, 2011 | Mar. 31, 2011 | Dec. 31, 2010 | Sept. 30, 2010 | June 30, 2010 | Mar. 31, 2010 |
|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | |
| **Operations Data, in thousands:** | | | | | | | | |
| Revenues | $ 9,484 | $ 8,979 | $ 8,320 | $ 7,242 | $ 6,844 | $ 5,975 | $ 5,815 | $ 5,796 |
| Expenses: | | | | | | | | |
| Sales and marketing | 6,638 | 6,976 | 6,710 | 7,433 | 7,588 | 6,179 | 5,219 | 4,922 |
| Technology and product development | 2,272 | 2,207 | 1,890 | 1,840 | 1,288 | 1,402 | 1,303 | 1,365 |
| General and administrative | 1,757 | 1,657 | 1,823 | 1,603 | 1,449 | 1,401 | 1,357 | 1,713 |
| Depreciation and amortization of property and equipment | 625 | 655 | 646 | 611 | 593 | 646 | 619 | 664 |
| Amortization of acquired intangible assets | 890 | 374 | 262 | 262 | 334 | 480 | 479 | 479 |
| Loss on asset disposition | | 174 | | | | | | |
| Contract termination charge | 1,450 | | | | | | | |
| Total expenses | 13,632 | 12,043 | 11,331 | 11,749 | 11,252 | 10,108 | 8,977 | 9,143 |
| Loss from operations | (4,148) | (3,064) | (3,011) | (4,507) | (4,408) | (4,133) | (3,162) | (3,347) |
| Equity in (loss) income of unconsolidated subsidiary | | | | | | (63) | (55) | (136) |
| Gain on valuation of investment in subsidiary | | | | | | 750 | | |
| Interest income and expense, net | 1 | 15 | 18 | 26 | 35 | 40 | 90 | 37 |
| Loss before income tax and noncontrolling interest | (4,147) | (3,049) | (2,993) | (4,481) | (4,373) | (3,406) | (3,127) | (3,446) |
| Income tax (benefit) expense | (36) | 3 | 3 | 3 | 3 | 3 | 1 | 3 |
| Net (loss) income | (4,111) | (3,052) | (2,996) | (4,484) | (4,376) | (3,409) | (3,128) | (3,449) |
| Net loss attributable to noncontrolling interest | (17) | (91) | (150) | (140) | (79) | | | |
| **Net (loss) income attributable to Market Leader** | $ (4,094) | $ (2,961) | $ (2,846) | $ (4,344) | $ (4,297) | $ (3,409) | $ (3,128) | $ (3,449) |
| Net (loss) income per share basic and diluted | $ (0.16) | $ (0.12) | $ (0.11) | $ (0.17) | $ (0.17) | $ (0.14) | $ (0.13) | $ (0.14) |
| Adjusted EBITDA | $ (771) | $ (1,524) | $ (1,716) | $ (3,271) | $ (3,099) | $ (2,531) | $ (1,613) | $ (1,708) |
| **Operations Data as a Percentage of Revenue:** | | | | | | | | |
| Revenues | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Expenses: | | | | | | | | |
| Sales and marketing | 70 | 78 | 80 | 103 | 111 | 103 | 90 | 85 |
| Technology and product development | 24 | 25 | 23 | 25 | 19 | 24 | 22 | 24 |
| General and administrative | 19 | 18 | 22 | 22 | 21 | 23 | 23 | 30 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Depreciation and amortization of property and equipment | 7 | 7 | 8 | 8 | 8 | 11 | 11 | 11 |
| Amortization of acquired intangible assets | 9 | 4 | 3 | 4 | 5 | 8 | 8 | 8 |
| Loss on asset disposition | | 2 | | | | | | |
| Contract termination charge | 15 | | | | | | | |
| Total expenses | 144 | 134 | 136 | 162 | 164 | 169 | 154 | 158 |
| Loss from operations | (44) | (34) | (36) | (62) | (64) | (69) | (54) | (58) |
| Equity in (loss) income of unconsolidated subsidiary | | | | | | (1) | (1) | (2) |
| Gain on valuation of investment in subsidiary | | | | | | 12 | | |
| Interest income and expense, net | | | | | | 1 | 1 | 1 |
| Loss before income tax and noncontrolling interest | (44) | (34) | (36) | (62) | (64) | (57) | (54) | (59) |
| Income tax benefit (expense) | 1 | | | | | | | (1) |
| Net (loss) income | (43%) | (34%) | (36%) | (62%) | (64%) | (57%) | (54%) | (60%) |
| Net loss attributable to noncontrolling interest | | | | | 1 | | | |
| **Net (loss) income attributable to Market Leader** | (43%) | (34%) | (36%) | (62%) | (63%) | (57%) | (54%) | (60%) |
| Adjusted EBITDA | (8%) | (17%) | (21%) | (45%) | (45%) | (42%) | (28%) | (29%) |

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Adjusted EBITDA is a non-GAAP financial measure provided as a complement to results in accordance with accounting principles generally accepted in the US. Adjusted EBITDA is not a substitute for measures determined in accordance with GAAP, and may not be comparable to Adjusted EBITDA as reported by other companies. Our use of the term Adjusted EBITDA refers to a financial measure defined as earnings or loss before net interest, income taxes, depreciation, amortization, stock-based compensation, and, to the extent relevant to a particular period, net loss available to non-controlling interest, equity in loss of unconsolidated subsidiary, and gain on valuation of investment in subsidiary. We believe Adjusted EBITDA to be relevant and useful information to our investors as this measure is an integral part of our internal management reporting and planning process and is the primary measure used by our management to evaluate operating performance. See the table below for a reconciliation of Adjusted EBITDA to net loss, the most comparable GAAP measure (unaudited, in thousands).

| | Dec. 31, 2011 | Sept. 30, 2011 | June 30, 2011 | Mar. 31, 2011 | Dec. 31, 2010 | Sept. 30, 2010 | June 30, 2010 | Mar. 31, 2010 |
|---|---|---|---|---|---|---|---|---|
| Net (loss) income attributable to Market Leader | $ (4,094) | $ (2,961) | $ (2,846) | $ (4,344) | $ (4,297) | $ (3,409) | $ (3,128) | $ (3,449) |
| Less: Interest income, net | (1) | (15) | (18) | (26) | (35) | (40) | (90) | (37) |
| Gain on valuation of investment in subsidiary | | | | | | (750) | | |
| Add: | | | | | | | | |
| Net loss available to noncontrolling interest | (17) | (91) | (150) | (140) | (79) | | | |
| Equity in (income) loss of unconsolidated subsidiary | | | | | | 63 | 55 | 136 |
| Loss on asset disposition | | 174 | | | | | | |
| Contract termination charge | 1,450 | | | | | | | |
| Depreciation and amortization of property and equipment | 625 | 655 | 646 | 611 | 593 | 646 | 619 | 664 |
| Amortization of intangible assets | 890 | 374 | 262 | 262 | 334 | 480 | 479 | 479 |
| Stock-based compensation | 412 | 337 | 387 | 363 | 382 | 476 | 451 | 496 |
| Income tax (benefit) expense | (36) | 3 | 3 | 3 | 3 | 3 | 1 | 3 |
| **Adjusted EBITDA** | $ (771) | $ (1,524) | $ (1,716) | $ (3,271) | $ (3,099) | $ (2,531) | $ (1,613) | $ (1,708) |

**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 $23.1 million at December 31, 2011 as compared to $45.3 million at December 31, 2010.

We follow an investment strategy that prioritizes the preservation and security and liquidity of our funds, which has resulted in significantly lower rates of return. As of December 31, 2011, we have invested in cash equivalents consisting of money market funds that hold U. S. Treasury securities with short-term weighted average duration. Short-term investments are comprised of U.S. Treasury bills and notes and FDIC-insured certificates of deposit with terms of one year or less.

We believe that our existing cash, cash equivalents and short-term investments will be sufficient to satisfy our currently anticipated cash requirements as we expect to significantly reduce our use of cash in operations in 2012. 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.

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The following table presents summary cash flow data:

| | Year Ended December 31, 2011 | 2010 |
|---|---|---|
| | (dollars in thousands) | |
| Cash used in operating activities | $ (7,788) | $ (3,595) |
| Cash used in investing activities | (195) | (4,906) |
| Cash used in financing activities | (746) | (246) |

***Operating Activities***

Net cash used in operating activities consists of our net loss adjusted for certain non-cash items, including depreciation, amortization, stock-based compensation and the effects of changes in working capital. We used cash in operations of $7.8 million in 2011 compared to cash used in operations of $3.6 million in 2010. Cash used in operations was lower in 2010 primarily due to the receipt of an income tax refund for $4.9 million and a lower net loss in 2010 compared to 2011.

***Investing Activities***

Cash used in investing activities for 2011 was $0.2 million compared to the cash used in investing activities for 2010 of $4.9 million. During 2011, we used cash in the acquisitions of RealEstate.com of $8.3 million, SharperAgent of $1.7 million,and *kwkly* of $0.8 million. This was offset by cash provided by net sales and maturities of our short term investments of $13.3 million during of 2011 compared to net purchases of $2.6 million for the same period in 2010.

***Financing Activities***

Cash used in financing activities during 2011 was primarily due to the acquisition of the noncontrolling interest in ActiveRain of $0.4 million. The remaining activity was consistent with the same period in 2010.

**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. We did not make any purchases pursuant to the share repurchase program during 2011. At December 31, 2011, 928,043 shares remain available for purchase under the share repurchase program.

During 2011, an aggregate of 116,527 shares of our common stock were tendered at amounts between $2.18 and $2.59 per share, in satisfaction of employees   income taxes upon the vesting of restricted stock.

**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 acquisition method of accounting, which requires that we record the assets acquired and liabilities assumed at their fair values on the date of acquisition, as well as the valuation of any contingent consideration. 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.

*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 annually or more frequently whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Our annual testing date is October 1. The assessment of impairment of long-lived assets, including goodwill requires significant judgment to determine the asset groups and number of reporting units, to estimate future undiscounted 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.

*Results of impairment tests.* Based on our continued operating losses, we evaluated our long-lived assets for impairment during 2010 and 2011 and determined that our long-lived assets were not impaired.

In addition, we evaluated our goodwill for impairment in 2010 and 2011. Consistent with the outcome of our long-lived asset assessment, we determined our goodwill was not impaired.

Our impairment analysis for goodwill was 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 appropriate stock price to determine market value, use of control premium and determination of the appropriate control premium, and determination of an appropriate set of comparable companies. Key assumptions in the income approach were based on a discounted cash flow model, which included significant assumptions about our future revenues, expenses, target profitability rates, and determination of an appropriate discount rate.

Our impairment analyses for our long-lived assets other than goodwill included a number of key variables, including 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, as well as assumptions about our future revenues, expenses, and target profitability rates.

As of December 31, 2011, we have $1.86 million in goodwill and approximately $15.3 million of long-lived assets. While we continue to depreciate the long-lived 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 goodwill and long-lived assets include, among others, deterioration of our estimate of future cash flows, stock price, lower customer revenues and lower retention rates than projected.

***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 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.

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At December 31, 2011, we have gross deferred tax assets of $19.6 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 temporary differences, taxable income in prior carryback years as permitted under tax law, and 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 losses, we continue to believe that it is more-likely-than-not 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, 2011.

We account for uncertainty in income taxes using a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of the tax benefits, determined on a cumulative probability basis, which is more-likely-than-not to be realized upon effective settlement. Our accounting policy is to recognize interest and penalties related to income tax matters as tax expense.

***Stock-Based Compensation***

We recognize stock-based compensation related to option grants using the fair value based method. We use 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, 2011. 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 | 55% | 65% | 75% |
| Estimated fair value | $ 0.96 | $ 1.12 | $ 1.26 |

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 | $ 0.96 | $ 1.12 | $ 1.25 |

**Recent Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-08, Intangibles Goodwill and Other. This standard amends the current two-step goodwill impairment test required under the existing accounting guidance. This amendment allows entities the option to first assess certain qualitative factors to ascertain whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine if the two-step impairment test is necessary. If an entity concludes that certain events or circumstances prove that it is more likely than not that the fair value of a reporting unit is less than its carrying amount then an entity is required to proceed to step one of the two-step goodwill impairment test. This standard is effective during interim and annual periods beginning after December 15, 2011. The adoption of this standard will not have a material impact on the Company s consolidated financial statements.

**ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

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

See Item 15 Exhibits and Financial Statement Schedules 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 Quarterly Consolidated Statements of Operations for selected quarterly financial data, which data is incorporated herein by reference.

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

None.

**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, 2011.

We acquired SharperAgent in the third quarter of 2011. Management excluded SharperAgent from its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011, including the internal control over financial reporting associated with SharperAgent, which had total assets of $1.8 million at December 31, 2011, and reported revenue of $1.2 million for the year ended December 31, 2011, which was included in our consolidated financial statements for the year ended December 31, 2011.

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We do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. 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.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2011, 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.

**ITEM 9B: OTHER INFORMATION**

No information was required to be disclosed in a Current Report on Form 8-K during the fourth quarter of 2011 that was not reported as required.

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## 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 24, 2012, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2011, 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 24, 2012, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2011, 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 24, 2012, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2011, our fiscal year end.

## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information concerning our equity compensation plans as of December 31, 2011:

| 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 | 6,880,933 | $ 2.81(2) | 451,318(3)(4) |
| Equity compensation plans not approved by shareholders | | | |
| Total | 6,880,933 | $ 2.81(2) | 451,318(3)(4) |

(1) We have stock options outstanding under the 1999 Stock Option Plan as well as stock options, restricted stock units, and stock appreciation rights 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.

(2) Includes restricted stock units, which have no exercise price. The weighted-average exercise price excluding the restricted stock units is $3.09.

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(3) 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, 2012, an additional 700,000 shares have been authorized for issuance under the automatic annual increase provisions of the 2004 Plan.

(4) Under the 2004 Plan, in addition to stock options, restricted stock units, and stock appreciation rights, we may grant restricted stock, performance units, performance shares, and other stock based awards. Stock appreciation rights have been included assuming net settlement given the closing stock price as of the end of the reporting period.

**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 24, 2012, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2011, 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 24, 2012, and is incorporated herein by reference. Our Proxy Statement will be filed within 120 days of December 31, 2011, our fiscal year end.

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**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 |
|---|---|
| Report of Independent Registered Public Accounting Firm | 39 |
| Consolidated Statements of Operations | 40 |
| Consolidated Balance Sheets | 41 |
| Consolidated Statements of Shareholders Equity | 42 |
| Consolidated Statements of Cash Flows | 43 |
| Notes to Consolidated Financial Statements | 44 |


(2) FINANCIAL STATEMENT SCHEDULES.

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2011 and 2010 page 52.

(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 5, 2007 (File No. 000-51032). |
| 2.2 | Asset Purchase Agreement by and between Market Leader, Inc., Lending Tree, LLC and Realestate.com, Inc. dated September 15, 2011, incorporated by reference from Exhibit 10.1 to the Registrant s Form 8-K filed on September 21, 2011 (File No. 000-51032). |
| 3.1 | Amended and Restated Articles of Incorporation of the registrant, as amended to date incorporated by reference to Exhibit 3.1 to the Registrant s Form 10-K filed on March 13, 2009 (File No. 000-51032). |
| 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* | HouseValues, Inc. 1999 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 to the Registrant s Form S-1 filed on September 1, 2004 (Registration No. 333-118740). |
| 10.2* | Market Leader, Inc. Amended and Restated 2004 Equity Incentive Plan, incorporated by reference to Appendix A to the Registrant s definitive proxy statement on Schedule 14A filed on April 10, 2009 (File No. 000-51032). |
| 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). |

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| Exhibit No. | Description |
|---|---|
| 10.5* | 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). |
| 10.6* | 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). |
| 10.7* | 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). |
| 10.8* | 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). |
| 10.9* | 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). |
| 10.10* | 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). |
| 10.11* | 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). |
| 10.12* | Form of Amendment Agreement by and between the Registrant and Market Leader Executives incorporated by reference to Exhibit 10.19 to the Registrant s Form 10-K filed on March 13, 2009 (File No. 000-51032). |
| 10.13* | Summary of Market Leader, Inc. 2011 Management Variable Cash Compensation Plan incorporated by reference from the description contained in the Registrant s Form 8-K filed on February 9, 2011 (File No. 000-51032). |
| 10.14 | 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). |
| 10.15 | First Amendment to Lease, dated as of May 26, 2005, by and between Multi-Employer Property Trust and HouseValues, Inc. and Second Amendment to Lease, dated as of October 14, 2005, by and between New Tower Multi-Employer Property Trust and HouseValues, Inc., incorporated by reference to Exhibit 10.3 to the Registrant s Form 10-Q filed on May 6, 2009 (File No. 000-51032). |
| 10.16 | Third Amendment to Lease, dated as of March 1, 2009, by and between MEPT Kirkland Office II LLC and Market Leader, Inc. incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K filed on April 14, 2009 (File No. 000-51032). |
| 10.17 | Fourth Amendment to Lease, dated as of May 26, 2009, by and between MEPT Kirkland Office II LLC and Market Leader, Inc. incorporated by reference to Exhibit 10.20 to the Registrant s Form 10-K filed on March 15, 2010 (File No. 000-51032). |
| 10.18 | Master Services Agreement dated as of January 6, 2011, and a related Statement of Work dated January 7, 2011, by and between Keller Williams Realty International and Market Leader, Inc, incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q filed on May 12, 2011 (File No. 000-51032). |

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| Exhibit No. | Description |
|---|---|
| 10.19 | Master Services Agreement and related statement of Work dated as of February 17, 2011, by and between Imprev, Inc. and Market Leader Inc, incorporated by reference to Exhibit 10.2 to the Registrant s Form 10-Q filed on May 12, 2011 (File No. 000-51032). |
| 10.20* | Form of Stock Appreciation Right Grant Notice/Agreement under the HouseValues, Inc 2004 Equity Incentive Plan incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q filed on November 14, 2011. |
| 10.21+ | Termination Agreement dated as of December 31, 2011, by and between Market Leader, Inc. and Imprev, Inc, incorporated by reference from the description contained in the Form 8-K filed on January 5, 2012 (File No. 000-51032). |
| 10.22* | Summary of Market Leader, Inc. 2012 Management Variable Cash Compensation Plan incorporated by reference from the description contained in the Registrant s Form 8-K filed on February 13, 2012 (File No. 000-51032). |
| 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. |
| 32.1+ | Section 1350 Certification of Chief Executive Officer. |
| 32.2+ | Section 1350 Certification of Chief Financial Officer. |
| 101.INS+ | XBRL Instance Document. |
| 101.SCH+ | XBRL Taxonomy Extension Schema Document. |
| 101.CAL+ | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF+ | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB+ | XBRL Taxonomy Extension Labels Linkbase Document. |
| 101.PRE+ | XBRL Taxonomy Extension Presentation Linkbase Document. |

& 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.

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## 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 19th day of March 2012.

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 19th day of March, 2012.

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

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## 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, 2011 and 2010, and the related consolidated statements of operations, shareholders equity, and cash flows for the years then ended. 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended 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, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Seattle, Washington

March 19, 2012

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**Market Leader, Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per share data)**

| | Years Ended December 31, 2011 | 2010 |
|---|---|---|
| Revenues | $ 34,025 | $ 24,430 |
| Expenses: | | |
| Sales and marketing (1) | 27,757 | 23,908 |
| Technology and product development (1) | 8,209 | 5,358 |
| General and administrative (1) | 6,840 | 5,920 |
| Depreciation and amortization of property and equipment (2) | 2,537 | 2,522 |
| Amortization of acquired intangible assets | 1,788 | 1,772 |
| Loss on asset disposition | 174 | |
| Contract termination charge | 1,450 | |
| Total expenses | 48,755 | 39,480 |
| Loss from operations | (14,730) | (15,050) |
| Equity in loss of unconsolidated subsidiary | | (254) |
| Gain on valuation of investment in subsidiary | | 750 |
| Interest income and expense, net | 60 | 202 |
| Loss before income tax (benefit) expense and noncontrolling interest | (14,670) | (14,352) |
| Income tax (benefit) expense | (27) | 10 |
| Net loss | (14,643) | (14,362) |
| Net loss attributable to noncontrolling interest | (398) | (79) |
| Net loss attributable to Market Leader | (14,245) | (14,283) |
| Net loss per share attributable to Market Leader-basic and diluted | $ (0.56) | $ (0.58) |

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

| | Years Ended December 31, 2011 | 2010 |
|---|---|---|
| Sales and marketing | $ 680 | $ 529 |
| Technology and product development | 180 | 193 |
| General and administrative | 639 | 1,083 |
| | $ 1,499 | $ 1,805 |

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

| | **Years Ended December 31,** | |
|---|---|---|
| | **2011** | **2010** |
| Technology and product development | $ 2,306 | $ 2,277 |
| General and administrative | 231 | 245 |
| | $ 2,537 | $ 2,522 |

*See accompanying notes to consolidated financial statements.*

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**Market Leader, Inc.**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share data)**

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 7,958 | $ 16,687 |
| Short-term investments | 15,141 | 28,628 |
| Trade accounts receivable, net of allowance of $36 and $12, respectively | 729 | 30 |
| Prepaid expenses and other current assets | 1,733 | 1,249 |
| Total current assets | 25,561 | 46,594 |
| Property and equipment, net | 4,507 | 3,856 |
| Intangible assets, net | 10,762 | 2,326 |
| Goodwill | 1,861 | 954 |
| Total assets | $ 42,691 | $ 53,730 |
| **Liabilities, Shareholders Equity and Noncontrolling Interest** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,120 | $ 1,157 |
| Accrued compensation and benefits | 2,599 | 1,809 |
| Accrued expenses and other current liabilities | 2,319 | 1,175 |
| Deferred rent, current portion | 230 | 214 |
| Deferred revenue | 1,056 | 517 |
| Total current liabilities | 7,324 | 4,872 |
| Deferred rent, less current portion | 249 | 527 |
| Total liabilities | 7,573 | 5,399 |
| Shareholders equity and noncontrolling interest: | | |
| Preferred stock, par value $0.001 per share; authorized 30,000,000 shares; none issued and outstanding at December 31, 2011 and 2010 | | |
| Common stock, par value $0.001 per share; authorized 120,000,000 shares; issued and outstanding 25,397,448 and 24,873,120 shares at December 31, 2011 and 2010, respectively | 74,073 | 71,889 |
| Accumulated deficit | (38,955) | (24,710) |
| Total Market Leader shareholders equity | 35,118 | 47,179 |
| Noncontrolling interest in subsidiary | | 1,152 |
| Total shareholders equity and noncontrolling interest | 35,118 | 48,331 |
| Total liabilities, shareholders equity and noncontrolling interest | $ 42,691 | $ 53,730 |

*See accompanying notes to consolidated financial statements.*

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**Market Leader, Inc.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

**(In thousands, except share data)**

| | Common Stock Shares | Common Stock Amount | Accumulated Deficit | Noncontrolling Interest In Subsidiary | Total Share-holders Equity and Noncontrolling Interest |
|---|---|---|---|---|---|
| Balance at December 31, 2009 | 24,409,431 | $ 70,220 | $ (10,427) | $ | $ 59,793 |
| Exercises of stock options (including vested restricted stock) | 639,270 | 97 | | | 97 |
| Stock-based compensation | | 1,915 | | | 1,915 |
| Payment of taxes due upon vesting of restricted stock | (175,581) | (343) | | | (343) |
| Noncontrolling interest in ActiveRain | | | | 1,231 | 1,231 |
| Net loss | | | (14,283) | (79) | (14,362) |
| Balance at December 31, 2010 | 24,873,120 | $ 71,889 | $ (24,710) | $ 1,152 | $ 48,331 |
| Exercises of stock options (including vested restricted stock) | 418,633 | 20 | | | 20 |
| Stock-based compensation | | 1,559 | | | 1,559 |
| Shares issued for acquisition of *kwkly* | 222,222 | 400 | | | 400 |
| Stock options issued for acquisition of *kwkly* | | 198 | | | 198 |
| Payment of taxes due upon vesting of restricted stock | (116,527) | (260) | | | (260) |
| Acquistion of noncontrolling interest in ActiveRain | | 267 | | (754) | (487) |
| Net loss | | | (14,245) | (398) | (14,643) |
| Balance at December 31, 2011 | 25,397,448 | $ 74,073 | $ (38,955) | $ | $ 35,118 |

*See accompanying notes to consolidated financial statements.*

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**Market Leader, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

| | Years Ended December 31, 2011 | Years Ended December 31, 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (14,643) | $ (14,362) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization of property and equipment | 2,537 | 2,522 |
| Amortization of intangible assets | 1,788 | 1,772 |
| Stock-based compensation | 1,499 | 1,805 |
| Loss on asset disposition | 174 | |
| Gain on valuation of investment in subsidiary | | (750) |
| Equity in loss of unconsolidated subsidiary | | 254 |
| Changes in certain assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (563) | 26 |
| Prepaid expenses and other current assets | (105) | (318) |
| Income tax receivable | (1) | 4,918 |
| Other noncurrent assets | | 43 |
| Accounts payable | (378) | 35 |
| Accrued compensation and benefits | 720 | 172 |
| Accrued expenses and other current liabilities | 907 | 413 |
| Deferred rent | (262) | (226) |
| Deferred revenue | 539 | 101 |
| Net cash used in operating activities | (7,788) | (3,595) |
| **Cash flows from investing activities:** | | |
| Purchases of short-term investments | (20,329) | (40,107) |
| Sales of short-term investments | 33,647 | 37,528 |
| Purchases of property and equipment | (2,857) | (1,933) |
| Cash paid for acquisition of RealEstate.com | (8,250) | |
| Cash paid for acquisition of SharperAgent, net of cash acquired | (1,656) | |
| Cash paid for acquisition of *kwkly* | (750) | |
| Acquisition of controlling interest in ActiveRain, net of cash acquired | | (394) |
| Net cash used in investing activities | (195) | (4,906) |
| **Cash flows from financing activities:** | | |
| Acquisition of noncontrolling interest in ActiveRain | (446) | |
| Payment of taxes due upon vesting of restricted stock | (260) | (343) |
| Proceeds from exercises of stock options | 20 | 97 |
| Principal payment on note payable | (60) | |
| Net cash used in financing activities | (746) | (246) |
| Net decrease in cash and cash equivalents | (8,729) | (8,747) |
| Cash and cash equivalents at beginning of year | 16,687 | 25,434 |
| Cash and cash equivalents at end of year | $ 7,958 | $ 16,687 |

*See accompanying notes to consolidated financial statements.*

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**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***

Market Leader, founded in 1999, provides innovative online technology and marketing solutions for real estate professionals across the United States and Canada. The company serves more than 100,000 real estate agents, brokerages and franchisors, offering complete end-to-end solutions that enable them to grow and manage their businesses. Market Leader s subscription-based real estate marketing software including websites, contact management, a marketing center, and lead generation services helps customers generate a steady stream of prospects, plus provides the systems and training they need to convert those prospects into clients. In addition, the company s national consumer real estate sites, including www.realestate.com, give its customers access to millions of future home buyers and sellers, while providing consumers with free access to the information they seek.

***Basis of Presentation***

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

Effective in September 2010, we began consolidating the financial statements of ActiveRain when we increased our ownership to more than 50%. Prior to September 2010 we owned approximately 34% of ActiveRain and treated it as an equity investment, recording 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 their net assets at the date of the investment, as adjusted for any impairment losses.

**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.

***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, the useful lives and potential impairment of intangible assets and property and equipment, 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 that we believe to be appropriate under the circumstances. We adjust our estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any changes in the estimates we used to prepare these financial statements will be reflected in the financial statements in future periods.

**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Revenue Recognition***

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. All initial set-up fees are recognized as revenue on a straight-line basis over the estimated customer life or the life of the contract, whichever is longer.

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, 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 provide software-as-a-service based products, where the customer does not have the contractual right to take possession of the software during the subscription period, and therefore software revenue recognition guidance is not applicable.

We recognize revenue for our arrangements with multiple elements by determining whether each element can be separated into a unit of accounting based on the following criteria: (1) the delivered item(s) have value to the customer on a stand-alone basis; and (2) if the arrangement includes a right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) that is probable and within our control. If the criteria are not met, elements included in an arrangement are accounted for as a single unit of accounting. If the criteria for separation are met resulting in two or more units of accounting, we use the relative selling price method to allocate arrangement consideration to the individual units of accounting, subject to a limitation that the amount allocable to the delivered unit or units of accounting is limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions.

***Sales and Marketing***

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

Advertising costs are expensed as they are incurred. Total advertising expense was $10,448 and $11,032 in 2011 and 2010, 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, net of amounts capitalized as software developed for internal use. Also included are license fees, maintenance costs, Internet and phone connectivity and website hosting costs.

***General and Administrative***

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, recruiting fees, business insurance premiums, rent and related expenses.

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Stock-based Compensation***

We recognize the fair value of compensation expense related to equity awards over the requisite service period using the straight-line method, adjusted for expected forfeitures. The fair value of the stock-based awards is determined at the date of grant, using the Black-Scholes option pricing model. 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 other variables. These variables include, but are not limited to, the expected life of the award, our expected volatility of our stock price volatility, and the projected option exercise behaviors.

***Concentration of Risk***

Our cash and cash equivalents are maintained primarily in a money market fund that invests in U.S. Treasury securities. Short-term investments consist of approximately $10 million in U.S. Treasury bills and $5 million in FDIC-insured certificates of deposit with terms of one year or less.

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.

As of December 31, 2011, one customer accounted for 79% of the Company s total accounts receivable balance. As of December 31, 2010, no customer accounted for more than 10% of the total consolidated accounts receivable balance.

***Fair Value Measurements***

Fair value is 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. We use a fair value hierarchy to prioritize 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 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.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. At December 31, 2011 and 2010, we had $5,585 and $15,151 in Money Market Funds, which were classified within the fair value hierarchy as Level 1 assets and accounted for at fair value. There have been no significant transfers in and out of Level 1 and Level 2.

The carrying amounts of accounts receivable, accounts payable and other current liabilities approximate fair value because of their short-term maturities.

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Cash Equivalents and Short-term Investments***

Cash equivalents are short-term deposits and investments 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 as held-to-maturity because 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.

***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 collectability 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.

***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 | 3 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. We measure recoverability by comparing the carrying amount of an asset group to the estimated undiscounted future cash flows we expect to generate from the asset group over its life. If undiscounted cash flows do not recover the carrying value of the asset group, we recognize impairment charges to the extent that 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***

Intangible assets are recorded at historical cost less amortization. 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 |
| Home listings datafeeds | 1 year |
| Tradename | 5 years |

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***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 service 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 law 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.

***Commitments and Contingencies***

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. While the results of such litigation cannot be predicted with certainty, the Company believes that the final outcome of such matters will not have a material adverse effect on the consolidated balance sheets or statement of operations.

***Recent Accounting Pronouncements***

In September 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-08, Intangibles Goodwill and Other. This standard amends the current two-step goodwill impairment test required under the existing accounting guidance. This amendment allows entities the option to first assess certain qualitative factors to ascertain whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine if the two-step impairment test is necessary. If an entity concludes that certain events or circumstances prove that it is more likely than not that the fair value of a reporting unit is less than its carrying amount then an entity is required to proceed to step one of the two-step goodwill impairment test. This standard is effective during interim and annual periods beginning after December 15, 2011. The adoption of this standard will not have a material impact on the Company s consolidated financial statements.

**Note 2: Acquisitions**

*RealEstate.com Acquisition*

On September 16, 2011 we acquired the assets of RealEstate.com for $8.25 million in cash. RealEstate.com provides real estate information, tools, and advice to consumers seeking to buy or sell homes. Our acquisition of the RealEstate.com assets allows us to leverage the strong domain name and traffic to extend our marketing solutions.

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The transaction was accounted for as a business combination, and accordingly, all of the assets of RealEstate.com were measured at fair value on the acquisition date. The following table summarizes the consideration paid for the identifiable assets acquired and their respective weighted average lives:

| | Amount | Weighted Average Life |
|---|---|---|
| Trademarks/Domain Names | $ 7,051 | 5.0 years |
| Developed technology | 1,199 | 3.0 years |
| | $ 8,250 | 4.7 years |

These fair values were based on estimates as of the closing date of the acquisition. We used the income approach to value the identified trademarks/domain names. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820. Under the income approach, fair value is estimated based upon the present value of cash flows that the applicable asset is expected to generate. The valuation of the developed technology was based on the cost- to- recreate method. These fair value measurements were also based on significant inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820

We have included Realestate.com s results of operations in our consolidated statement of income since September 2011. The Realestate.com assets produced net revenues of $90 in 2011.

*SharperAgent Acquisition*

On August 1, 2011, we acquired SharperAgent, LLC ( SharperAgent ), for $1.74 million in cash plus assumed liabilities. SharperAgent is a leading provider of online and print marketing suites to the real estate industry with more than 30,000 real estate agent users across North America. Our acquisition of SharperAgent allows us to integrate SharperAgent s marketing campaign, design, and print capabilities with our premium product offerings as a continued expansion of our business and marketing platform for real estate professionals.

The transaction was accounted for as a business combination, and accordingly, all of the assets and liabilities of SharperAgent were measured at fair value on the acquisition date. The following tables summarize the consideration paid for SharperAgent and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

| | |
|---|---|
| Cash Paid | $ 1,737 |
| Less: Total identifiable net assets | (1,608) |
| Total Goodwill | $ 129 |

| | |
|---|---|
| Cash | $ 81 |
| Trade Receivables | 136 |
| Property and Equipment | 277 |
| Identifiable intangible assets | 1,403 |
| Other assets | 16 |
| Trade payables and other liabilities | (305) |

| | |
|---|---|
| Total identifiable net assets | $ 1,608 |

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The intangible assets acquired and their respective weighted average lives are as follows:

| | Amount | Weighted Average Life |
|---|---|---|
| Developed technology | $ 1,078 | 3.0 years |
| Customer base | 325 | 3.0 years |
| | $ 1,403 | 3.0 years |

These fair values were based on estimates as of the closing date of the acquisition. We used the income approach to value the identified intangible assets. These fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820. Under the income approach, fair value is estimated based upon the present value of cash flows that the applicable asset is expected to generate. The valuation of the developed technology was based on the relief-from-royalty method and the existing customer relationships were valued using the discounted cash flow method.

Goodwill of $129 primarily consists of the benefit of acquiring new expertise and enhanced service offerings that we can leverage into both our existing customer base and in acquiring new customers. The goodwill recognized is expected to be deductible for income tax purposes.

We have included SharperAgent s results of operations in our consolidated statement of income since August 2011. The SharperAgent products produced net revenues of $1,224 and a net loss of $592 in 2011.

*KWKLY Acquisition*

On January 7, 2011, we acquired substantially all of the assets of KWKLY, LLC ( *kwkly* ). *kwkly* is a mobile software-as-a-service lead generation platform that provides home buyers with real-time access to property information on their Web-enabled phones, while at the same time connecting real estate professional customers of *kwkly* with those home buyers. Our acquisition of *kwkly* expands the offerings that the Company can make available through its business and marketing platform for real estate professionals.

The transaction was accounted for as a business combination, and accordingly, all of the assets of *kwkly* were measured at fair value on the acquisition date.

We paid cash consideration of $750, issued 222,222 shares of stock that were valued based on the closing stock price on January 7, 2011 of $1.80, and granted a fully vested non-qualified stock option to purchase 250,000 shares which was valued using a Black-Scholes fair value of $0.7936 per share.

Below is a summary of the total consideration transferred:

| | |
|---|---|
| Cash | $ 750 |
| Stock | 400 |
| Stock options | 198 |
| | $ 1,348 |

The recognized amount of identifiable assets acquired:

| | |
|---|---|
| Identifiable intangible assets | $ 570 |
| Goodwill | 778 |
| | $ 1,348 |

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The intangible assets acquired and their respective weighted average lives are as follows:

| | Amount | Weighted Average Life |
|---|---|---|
| Developed technology | $ 445 | 3.0 years |
| Customer relationships | 50 | 3.0 years |
| Home listings Datafeeds | 75 | 1.0 years |
| | $ 570 | 2.7 years |

These fair values were based on estimates as of the closing date of the acquisition. We used the income approach to value the customer relationships. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820. Under the income approach, fair value is estimated based upon the present value of cash flows that the applicable asset is expected to generate. The valuations of the developed technology and the home listings data feeds were based on the cost to recreate method. These fair value measurements were also based on significant inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820.

Goodwill of $778 primarily consists of the benefit of acquiring new expertise and a new product in the mobile space that we can leverage into our existing customer base. The goodwill recognized is expected to be deductible for income tax purposes.

We have included *kwkly* s results of operations in our consolidated statement of income since January 2011. The *kwkly* product produced net revenues of $402 in 2011.

*ActiveRain Acquisition*

On September 27, 2010 we acquired an additional 18% of the outstanding voting stock of ActiveRain Corporation ( ActiveRain ) for $450. 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. Our affiliation with ActiveRain provides us with access to a sizable and rapidly growing professional community, which we expect will help us increase our effectiveness in acquiring customers.

As a result of this transaction, the Company s ownership interest in ActiveRain increased to 51%. The transaction was accounted for as a business combination, and accordingly, all of the assets and liabilities of ActiveRain were measured at fair value on the acquisition date.

The intangible assets acquired and their respective weighted average lives are as follows:

| | Amount | Weighted Average Life |
|---|---|---|
| Developed technology | $ 544 | 3.0 years |
| Customer base | 263 | 3.0 years |
| Tradename | 971 | 5.0 years |
| | $ 1,778 | 3.4 years |

These fair values were based on estimates as of the closing date of the acquisition. We used the income approach to value ActiveRain, the noncontrolling interest, the fair value of the equity interest immediately before the acquisition date, and the identified intangible assets. These fair value measurements were based on significant

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820. Under the income approach, fair value is estimated based upon the present value of cash flows that the applicable asset is expected to generate. The valuation of the developed technology and the trade name were based on the relief-from-royalty method and the existing customer relationships were valued using the discounted cash flow method.

Goodwill of $954 primarily consists of the benefit from gaining access to a sizable professional community which can increase our effectiveness in acquiring customers. None of the goodwill recognized is expected to be deductible for income tax purposes.

During the fourth quarter of 2011 we acquired the remaining outstanding voting stock of ActiveRain Corporation ( ActiveRain ) for $487. As a result of this transaction, the Company s ownership interest in ActiveRain increased to 100%. The difference between the sellers recorded noncontrolling interest balance and the cash paid was recorded in common stock as we had already obtained a controlling interest in ActiveRain as a result of our September 27, 2010 acquisition described above.

For comparability purposes, the following table presents our unaudited pro forma revenue and earnings (loss) for the years ended December 31, 2010 and 2011 had the RealEstate.com, SharperAgent, ActiveRain and *kwkly* acquisitions occurred on January 1, 2010:

| | Years ended December 31, (unaudited) | |
|---|---|---|
| | 2011 | 2010 |
| Revenues | $ 37,028 | $ 31,961 |
| Net loss attributable to Market Leader | $ (22,786) | $ (28,344) |

Included in the pro forma net loss are asset impairment losses related to Realestate.com of $5.0 million and $9.0 million in 2011 and 2010, respectively.

**Note 3: Earnings (Loss) Per Share**

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

Diluted earnings (loss) per share are calculated by dividing net income (loss) by the weighted average common shares outstanding plus dilutive potential common stock. Potential common stock includes stock options to the extent dilutive, calculated using the treasury stock method.

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

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| | Years Ended December 31, 2011 | 2010 |
|---|---|---|
| Net loss attributable to Market Leader | $ (14,245) | $ (14,283) |
| Weighted average common shares outstanding | 25,222 | 24,661 |
| Dilutive effect of stock options and restricted stock units | | |
| Diluted shares | 25,222 | 24,661 |
| Net basic loss per share | $ (0.56) | $ (0.58) |
| Net diluted loss per share | $ (0.56) | $ (0.58) |
| Antidilutive equity-based awards | 6,881 | 5,353 |

**Note 4: Cash, Cash Equivalents and Short-Term Investments**

At December 31, 2011, cash, cash equivalents, and short-term investments consisted of the following:

| | Amortized Cost | Gross Unrealized Gains | Estimated Fair Value |
|---|---|---|---|
| Cash | $ 2,373 | $ | $ 2,373 |
| Money market account | 5,585 | | 5,585 |
| Cash and cash equivalents | $ 7,958 | $ | $ 7,958 |

| | Amortized Cost | Gross Unrealized Gains | Estimated Fair Value |
|---|---|---|---|
| U.S. Treasury bills | $ 10,183 | $ 6 | $ 10,189 |
| Certificates of Deposit | 4,958 | 2 | 4,960 |
| Short-Term investments | $ 15,141 | $ 8 | $ 15,149 |

At December 31, 2010, cash, cash equivalents, and short-term investments consisted of the following:

| | Amortized Cost | Gross Unrealized Gains | Estimated Fair Value |
|---|---|---|---|
| Cash | $ 1,536 | $ | $ 1,536 |

| | | | |
|---|---|---|---|
| Money market account | 15,151 | | 15,151 |
| Cash and cash equivalents | $ 16,687 | $ | $ 16,687 |

| | **Amortized Cost** | **Gross Unrealized Gains** | **Estimated Fair Value** |
|---|---|---|---|
| U.S. Treasury bills | $ 19,481 | $ 4 | $ 19,485 |
| Certificates of Deposit | 9,147 | 18 | 9,165 |
| Short-Term investments | $ 28,628 | $ 22 | $ 28,650 |

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our 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.

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

**Note 5: Property and Equipment, net**

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

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Computer equipment and software | $ 7,422 | $ 6,535 |
| Software developed for internal use | 14,433 | 12,580 |
| Office equipment and furniture | 932 | 891 |
| Leasehold improvements | 907 | 897 |
| | 23,694 | 20,903 |
| Less: accumulated depreciation and amortization | (19,187) | (17,047) |
| | $ 4,507 | $ 3,856 |

Software developed for internal use costs include external direct costs and internal direct labor and related employee benefits costs. Internal use software costs totaled $3,188 and $3,191, net of accumulated amortization at December 31, 2011 and 2010, respectively. Capitalized costs are amortized on a straight-line basis over the estimated useful life of the software once it is available for use. Depreciation of capitalized internal use software costs was $2,071 and $2,069 for 2011 and 2010, respectively.

**Note 6: Acquired Intangible Assets, Net**

Intangible assets and related accumulated amortization consists of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Cost: | | |
| Vendor agreements | $ 1,390 | $ 1,390 |
| Customer base | 2,324 | 1,949 |
| Developed technology | 6,903 | 4,179 |
| Tradename | 9,667 | 2,616 |
| Home listings datafeeds | 75 | |
| Domain names | 391 | 391 |
| Total cost | 20,750 | 10,525 |
| Accumulated amortization: | | |
| Vendor agreements | (1,390) | (1,390) |

| | | |
|---|---|---|
| Customer base | (1,858) | (1,708) |
| Developed technology | (4,253) | (3,629) |
| Tradename | (2,025) | (1,091) |
| Home listings datafeeds | (75) | |
| Domain names | (387) | (381) |
| Total accumulated amortization | (9,988) | (8,199) |
| Acquired Intangible Assets, net | $ 10,762 | $ 2,326 |

**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| | Total |
|---|---|
| 2012 | $ 3,194 |
| 2013 | 2,851 |
| 2014 | 2,155 |
| 2015 | 1,563 |
| 2016 | 999 |
| Total | $ 10,762 |

**Note 7: 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 acquisition method. We recorded additions to goodwill of $907 in 2011 related to the purchase of *kwkly* in January 2011 and SharperAgent in August 2011, as described in Note 2. We recorded additions to goodwill of $954 in 2010 related to the purchase of a controlling interest in ActiveRain in September of 2010.

**Note 8: Accrued Expenses and Other Current Liabilities**

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

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Contract termination liability | $ 1,350 | $ |
| Accrued advertising | 439 | 764 |
| Accrued services | 100 | 67 |
| Accrued legal and professional fees | 95 | 58 |
| Accrued business taxes | 35 | 164 |
| Other | 300 | 122 |
| | $ 2,319 | $ 1,175 |

**Note 9: Self Insurance**

We are self insured for our medical and dental coverage. The medical plan carries a stop-loss policy, which will protect from an individual claim during the plan year exceeding $100 or when cumulative medical claims exceed 125% 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 is included in accrued compensation and benefits and was $158 and $143 at December 31, 2011 and 2010, respectively.

**Note 10: Income Taxes**

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

| | Years Ended December 31, 2011 | Years Ended December 31, 2010 |
|---|---|---|
| Current | $ (33) | $ 10 |
| Deferred | (4,917) | (4,071) |
| Valuation allowance | 4,923 | 4,071 |
| | $ (27) | $ 10 |

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| | 2011 | 2010 |
|---|---|---|
| Federal statutory tax rate | 34.0% | 34.0% |
| Incremental investment in ActiveRain | | (4.6%) |
| Other | 0.7% | (1.0%) |
| Change in valuation allowance | (34.5%) | (28.5%) |
| Effective tax rate | 0.2% | (0.1%) |

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

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| **Deferred tax assets:** | | |
| Net operating loss carryforward | $ 11,686 | $ 6,782 |
| Stock-based compensation | 3,623 | 3,477 |
| Acquired intangible assets | 3,413 | 3,375 |
| Alternative minimum tax credit | 448 | 511 |
| Allowances and accruals | 263 | 252 |
| Deferred rent | 163 | 252 |
| Valuation allowance | (18,469) | (13,546) |
| Total deferred tax assets | $ 1,127 | $ 1,103 |
| Deferred tax liabilities: | | |
| Property and equipment | $ (1,048) | $ (1,022) |
| Prepaids, discounts and other | (79) | (81) |
| Goodwill | (6) | |
| Total deferred tax liabilities | $ (1,133) | $ (1,103) |

Our deferred tax assets and liabilities are expected to reverse over the next five years, except for the net operating losses and the deferred tax liability related to goodwill deductions on the goodwill acquired in 2011. Based on our recent history of operating losses and the lack of carryback periods for losses, we believe 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 amount of our gross deferred tax assets for which it is not more likely than not that we will realize the benefit. We increased our valuation allowance by $4,923 and $4,187 in 2011 and 2010, respectively.

At December 31, 2011, our gross net operating loss carryforwards were $39,250 and will begin to expire in 2023.

At December 31, 2011 we have no unrecognized tax benefits. A reconciliation of the amount of unrecognized tax benefits is as follows:

| | 2011 | 2010 |
|---|---|---|
| Balance at January 1 | $ 115 | $ 115 |
| Additions based on tax positions related to the current year | | |

| | | |
|---|---|---|
| Additions for tax positions of prior years | | |
| Reductions for tax positions of prior years | (21) | |
| Settlements | (94) | |
| | $ | $ 115 |

We have concluded all U.S. Federal income tax matters for years through 2009.

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 11: Leases**

We lease 25,309 square feet for our corporate offices in Kirkland, Washington. The lease expires in June 2013 and includes an option to extend the lease term for five years.

We also lease 5,809 square feet of office space in Seattle, Washington. This noncancelable operating lease has a term of 39 months with an option to extend the lease term for two years beyond the initial term. The lease expires in January 2013.

In addition, as a result of our acquisition of SharperAgent, as described in Note 2 above, we now lease 6,740 square feet of office space in Greenwood Village, Colorado. The lease expires in September 2012.

Our leases contain 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 lease as a deferred liability, which is included as a component of deferred rent on the accompanying consolidated balance sheets.

Following are the future minimum payments required under all property and equipment operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2011.

| | |
|---|---|
| 2012 | 728 |
| 2013 | 281 |
| 2014 | 12 |
| 2015 | 2 |
| 2016 | |
| | $ 1,023 |

Rent expense totaled $753 and $557 during 2011 and 2010, respectively.

**Note 12: Stock Option Plans and Stock-Based Compensation**

We issue stock options, restricted stock units, and stock appreciation rights to our employees under the terms of our 2004 Equity Incentive Plan. Our stock-based compensation cost for employees granted stock options and restricted stock units 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, reduced for estimated forfeitures, 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 historical experience.

*Expected Volatility*. We estimate the volatility of our stock price at the date of grant based on the historical volatility of our stock price calculated over a term equivalent to the expected life of the award. During 2011, the range of expected volatilities used was 60% to 65%.

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*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. During 2011, the range of risk-free interest rates used was 0.34% to 1.39%.

*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.

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, 2011 | Years Ended December 31, 2010 |
|---|---|---|
| Weighted average expected risk-free interest rate | 0.92% | 0.77% |
| Weighted average expected volatility | 62% | 60% |
| Expected life (in years) | 3.5 years | 3.5 years |
| Expected dividend yield | 0% | 0% |
| Weighted average fair value | $ 0.93 | $ 0.87 |

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***

Employee stock 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, 2010 | 4,358,596 | $ 3.55 | $ 1.76 | | |
| Options granted | 1,239,000 | 2.08 | 0.93 | | |
| Options exercised | (11,699) | 1.67 | 1.48 | | |
| Options forfeited | (86,637) | 2.18 | 0.97 | | |
| Options expired | (63,034) | 4.31 | 2.13 | | |
| Outstanding at December 31, 2011 | 5,436,226 | $ 3.23 | $ 1.58 | 6.4 years | $ 2,674 |
| Exercisable at December 31, 2011 | 3,462,215 | $ 3.87 | $ 1.95 | 5.1 years | $ 1,400 |

The aggregate intrinsic value of options outstanding at December 31, 2011 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.

| | Years Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Intrinsic value of options exercised | $ 4 | $ 31 |
| Grant date fair value of options vested | $ 851 | $ 766 |
| Grant date fair value of options forfeited | $ 84 | $ 148 |

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Stock Awards***

We have 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 vesting periods from two to four 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. The restricted stock units are recognized over their applicable vesting period using the straight-line method reduced for estimated forfeitures. The total grant date fair value of stock awards that vested during 2011 and 2010 was $1,012 and $1,648, respectively.

During 2011, the following activity occurred related to our restricted stock units granted to employees:

| | Stock Awards | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested stock award balance at December 31, 2010 | 794,143 | $ 2.26 |
| Restricted stock units granted | 291,000 | 2.21 |
| Units upon which restrictions lapsed | (406,934) | 2.49 |
| Restricted stock units forfeited | (59,502) | 2.19 |
| Nonvested stock award balance at December 31, 2011 | 618,707 | $ 2.09 |

***Non-Employee Share Based Payments***

On September 23, 2010, we granted options to purchase 200,000 of our common stock to a consultant under the 2004 Equity Incentive Plan in exchange for services. The options granted vest over two years and the associated expense is included in our sales and marketing expense. At the end of each financial reporting period prior to vesting, the value of these options, as calculated using the Black-Scholes option pricing model, is re-measured using the option fair value and the stock-based compensation recognized during the period is adjusted accordingly. Since the fair value of these options is subject to change in the future, the amount of future compensation expense will include fair value re-measurements until the stock options are fully vested.

The year-end value of options granted was estimated using the Black-Scholes option-pricing model with the following assumptions:

| | Years Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Exercise price | $ 2.01 | $ 2.01 |
| Expected risk-free interest rate | 1.89% | 3.30% |
| Expected volatility | 57% | 56% |
| Expected life (in years) | 10 years | 10 years |
| Expected dividend yield | 0% | 0% |
| Weighted average fair value | $ 1.84 | $ 1.18 |

We recognized $202 and $32 of expense respectively in 2011 and 2010 related to these options with an estimated $134 of expense remaining to be recognized over the next year.

***Stock Appreciation Rights***

In September 2011, the Company granted stock appreciation rights to executives. The stock appreciation rights entitle the holder to the appreciation in value of the award as the award vests over a four-year period. The awards can be settled in cash or shares of common stock, at the Company s option.

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We measure the fair value of stock appreciation rights similar to stock options. Additionally stock appreciation rights are liability-classified awards that must be remeasured at fair value at the end of each reporting period, and cumulative compensation cost adjusted for changes in fair value. Compensation expense related to stock appreciation rights is recognized over the four-year vesting period using the straight-line method reduced for estimated forfeitures. None of the awards were vested at December 31, 2011. We recognized $45 of expense in 2011 related to these stock appreciation rights. Stock appreciation rights activity is summarized in the following table:

| | Stock Appreciation Rights | Weighted Average Exercise Price | Weighted Average Fair Value | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| Outstanding at December 31, 2010 | | $ | $ | | |
| Granted | 626,000 | 2.25 | 1.02 | | |
| Outstanding at December 31, 2011 | 626,000 | $ 2.25 | $ 1.29 | 8.9 years | $ 311 |
| Exercisable at December 31, 2011 | | $ | $ | | $ |

The year-end value of stock appreciation rights granted were estimated using the Black Scholes option pricing model with the following assumptions:

| | Year Ended December 31, 2011 |
|---|---|
| Weighted average exercise price | $ 2.25 |
| Expected risk-free interest rate | 0.36% |
| Expected volatility | 65% |
| Expected life (in years) | 3.5 years |
| Expected dividend yield | 0% |
| Weighted average fair value | $ 1.29 |

***Stock-based Compensation***

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

| | Years Ended December 31, 2011 | 2010 |
|---|---|---|
| Total cost of share-based payment plans | $ 1,603 | $ 1,915 |
| Amounts capitalized in internally developed software | (104) | (110) |

| | | |
|---|---|---|
| Amounts charged against income, before income tax benefit | $ 1,499 | $ 1,805 |
| Amount of related income tax benefit recognized | $ | $ |
| Depreciation recognized for stock compensation capitalized in fixed assets | $ 137 | $ 135 |

In 2011 and 2010, we have recognized a full valuation allowance against the income tax benefit resulting from our stock-based compensation as shown above.

As of December 31, 2011, we had $3,523 of unrecognized compensation cost related to non-vested stock-based awards granted to employees under all equity compensation plans, which includes restricted stock units, stock options, and stock appreciation rights. We expect to recognize this cost over a weighted average period of 1.6 years.

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### Note 13: Common Stock

***Common Stock Reserved for Future Issuance***

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

| | December 31, 2011 |
|---|---|
| Options outstanding under the 1999 Stock Option Plan | 998,528 |
| Options and unvested stock awards outstanding under the 2004 Equity Incentive Plan | 5,882,405 |
| Additional equity awards that can be issued under the 2004 Equity Incentive Plan | 451,318 |
| Common stock reserved for future issuance | 7,332,251 |

An additional 700,000 shares was authorized for issuance effective January 1, 2012 under the automatic annual increase provisions of the 2004 Equity Incentive Plan. We issue new shares for option exercises and vested restricted stock units.

### Note 14: 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 15: Contract Termination Charge

We terminated our agreement that had allowed for integration of third party marketing design software solution with the Company s marketing and business platform delivered as a software-as-a-service ( SaaS ) solution to Keller Williams real estate professionals. The termination was effective December 31, 2011. As a result, we were released from future minimum contractual liabilities totaling $2.6 million, as well as any and all future revenue sharing payments related to the revenue generated from the premium SaaS solutions being provided to Keller Williams professionals. We will pay early termination fees totaling $1.45 million including the $1.35 million unpaid and accrued as of year-end and $100 in a waived deposit.

Concurrently, both parties entered into a transitional services agreement for the period January 1, 2012 through June 30, 2012 for which we will pay $600,000.

### Note 16: Supplemental Disclosures of Cash Flow Information

| | Years Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Cash paid (received) during the period for income taxes | $ 7 | $ (4,912) |
| Noncash investing and financing activities: | | |
| Increase in payables for property and equipment | $ 46 | $ |
| Payable related to acquisition of noncontrolling interest in ActiveRain | $ 41 | $ |
| Equity issued in acquisition of *kwkly* | $ 598 | $ |

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**Market Leader, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 17: Subsequent Events**

On March 8, 2012, we entered into an agreement with CENTURY 21 to provide a marketing platform to U.S.-based CENTURY 21 agents and offices that includes integrated components for customer relationship management ( CRM ), lead follow-up, marketing design for print and email, and office dashboards. The initial term of the agreement is two years from the date of product launch, which is expected to occur in the second half of 2012. During the initial term, the agreement requires CENTURY 21 to make minimum payments totaling $2.55 million. The Company also expects to generate additional revenue from premium SaaS solutions as well as other technology and marketing services that will be made available to the CENTURY 21 agents and brokerage offices in the U.S.

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**Market Leader, Inc.**

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

**(Dollars in thousands)**

| **Column A**<br>**Description** | **Column B**<br>**Balance at Beginning of Period** | **Column C**<br>**Additions** | **Column D**<br>**Deductions** | **Column E**<br>**Balance at End of Period** |
|---|---|---|---|---|
| **Allowance for doubtful accounts:** | | | | |
| Year ended: | | | | |
| December 31, 2011 | $ 12 | $ 618 | $ 594(A) | $ 36 |
| December 31, 2010 | $ 29 | $ 441 | $ 458(A) | $ 12 |

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

| **Column A**<br>**Description** | **Column B**<br>**Balance at Beginning of Period** | **Column C**<br>**Additions** | **Column D**<br>**Deductions** | **Column E**<br>**Balance at End of Period** |
|---|---|---|---|---|
| **Valuation allowance for deferred tax assets:** | | | | |
| Year ended: | | | | |
| December 31, 2011 | $ 13,546 | $ 4,923 | $ | $ 18,469 |
| December 31, 2010 | $ 9,359 | $ 4,187 | $ | $ 13,546 |