

Market Leader, Inc.
Form 10-Q
August 05, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.20549

FORM 10-Q

(Mark One)

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

For The Quarterly Period Ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission File Number: 000-51032

Market Leader, Inc.

(Exact name of registrant as specified in its charter)

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Washington
(State or other jurisdiction of

91-1982679
(IRS Employer

incorporation or organization)

Identification No.)

11332 NE 122nd Way, Suite 200

Kirkland, WA
(Address of principal executive offices)

98034
(Zip Code)

(425) 952-5500

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer

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

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

As of July 29, 2013, there were outstanding 27,349,807 shares of the registrant's common stock, \$0.001 par value, which is the only class of common stock of the registrant.

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FORM 10-Q

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements
Market Leader, Inc.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(unaudited)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues | \$ 13,686 | \$ 11,074 | \$ 26,610 | \$ 21,260 |
| Expenses: | | | | |
| Sales and marketing (1) | 8,238 | 6,999 | 17,083 | 14,027 |
| Technology and product development (1) | 3,020 | 2,762 | 5,962 | 5,101 |
| General and administrative (1) | 3,593 | 1,855 | 5,896 | 3,710 |
| Depreciation and amortization of property and equipment (2) | 816 | 768 | 1,643 | 1,412 |
| Amortization of acquired intangible assets | 793 | 836 | 1,580 | 1,659 |
| Total expenses | 16,460 | 13,220 | 32,164 | 25,909 |
| Loss from operations | (2,774) | (2,146) | (5,554) | (4,649) |
| Interest income and expense, net | 4 | 8 | 10 | 17 |
| Loss before income tax expense | (2,770) | (2,138) | (5,544) | (4,632) |
| Income tax expense | 7 | 8 | 14 | 36 |
| Net loss | (2,777) | (2,146) | (5,558) | (4,668) |
| Net loss per share basic and diluted | \$ (0.10) | \$ (0.08) | \$ (0.21) | \$ (0.18) |

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

| | 2013 | 2012 | 2013 | 2012 |
|------------------------------------|-------------|-------------|-------------|-------------|
| Sales and marketing | \$ 316 | \$ 440 | \$ 689 | \$ 795 |
| Technology and product development | 460 | 67 | 898 | 117 |
| General and administrative | 604 | 295 | 1,162 | 523 |
| | \$ 1,380 | \$ 802 | \$ 2,749 | \$ 1,435 |

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

| | 2013 | 2012 | 2013 | 2012 |
|------------------------------------|-------------|-------------|-------------|-------------|
| Technology and product development | \$ 704 | \$ 678 | \$ 1,417 | \$ 1,245 |
| General and administrative | 112 | 90 | 226 | 167 |

| | | | | | | | |
|----|-----|----|-----|----|-------|----|-------|
| \$ | 816 | \$ | 768 | \$ | 1,643 | \$ | 1,412 |
|----|-----|----|-----|----|-------|----|-------|

See accompanying notes to condensed consolidated financial statements.

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

| | June 30, 2013 | December 31, 2012 |
|---|--------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,239 | \$ 11,165 |
| Short-term investments | 6,998 | 11,034 |
| Trade accounts receivable, net of allowance of \$17 and \$14, respectively | 1,175 | 854 |
| Prepaid expenses and other current assets | 1,050 | 999 |
| Total current assets | 23,462 | 24,052 |
| Property and equipment, net of accumulated depreciation of \$17,191 and \$15,941, respectively | 5,782 | 5,486 |
| Acquired intangible assets, net of accumulated amortization of \$14,773 and \$13,307, respectively | 6,235 | 7,672 |
| Goodwill | 1,861 | 1,861 |
| Total assets | \$ 37,340 | \$ 39,071 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 844 | \$ 978 |
| Accrued compensation and benefits | 3,053 | 3,194 |
| Accrued expenses and other current liabilities | 1,773 | 1,195 |
| Deferred rent, current portion | 70 | 177 |
| Deferred revenue | 1,176 | 1,126 |
| Total current liabilities | 6,916 | 6,670 |
| Stock appreciation right liability | 2,750 | 1,044 |
| Other noncurrent liabilities | 74 | 56 |
| Total liabilities | 9,740 | 7,770 |
| Shareholders' equity: | | |
| Preferred stock, par value \$0.001 per share, authorized 30,000,000 shares; none issued and outstanding at June 30, 2013 and December 31, 2012, respectively | | |
| Common stock, par value \$0.001 per share, stated at amounts paid in; authorized 120,000,000 shares; issued and outstanding 27,329,352 and 26,634,447 shares at June 30, 2013 and December 31, 2012, respectively | 79,897 | 78,040 |
| Accumulated deficit | (52,297) | (46,739) |
| Total shareholders' equity | 27,600 | 31,301 |
| Total liabilities and shareholders' equity | \$ 37,340 | \$ 39,071 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Market Leader, Inc.****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY****(In thousands, except share data)****(unaudited)**

| | Common Stock | | Accumulated Deficit | Total Shareholders Equity |
|---|---------------------|---------------|--------------------------------|--|
| | Shares | Amount | | |
| Balance at December 31, 2012 | 26,634,447 | \$ 78,040 | \$ (46,739) | \$ 31,301 |
| Stock award exercises and vesting of restricted stock | 768,558 | 1,621 | | 1,621 |
| Stock-based compensation | | 843 | | 843 |
| Value of equity awards withheld for tax liability and award exercises | (73,653) | (607) | | (607) |
| Net loss | | | (5,558) | (5,558) |
| Balance at June 30, 2013 | 27,329,352 | \$ 79,897 | \$ (52,297) | \$ 27,600 |

See accompanying notes to condensed consolidated financial statements.

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

| | Six months ended June 30, | |
|---|--------------------------------------|-------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net loss | \$ (5,558) | \$ (4,668) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization of property and equipment | 1,643 | 1,412 |
| Amortization of acquired intangible assets | 1,580 | 1,659 |
| Stock-based compensation | 2,749 | 1,435 |
| Changes in certain assets and liabilities: | | |
| Trade accounts receivable | (321) | 70 |
| Prepaid expenses and other current assets | (18) | 258 |
| Accounts payable | (33) | (216) |
| Accrued compensation and benefits | (141) | 354 |
| Accrued expenses and other current liabilities | 565 | (605) |
| Deferred rent | (85) | (154) |
| Deferred revenue | 50 | 140 |
| Net cash provided by (used in) operating activities | 431 | (315) |
| Cash flows from investing activities: | | |
| Purchases of short-term investments | (6,997) | (6,991) |
| Maturities of short-term investments | 11,000 | 14,958 |
| Purchases of property and equipment | (2,099) | (1,949) |
| Net cash provided by investing activities | 1,904 | 6,018 |
| Cash flows from financing activities: | | |
| Value of equity awards withheld for tax liability and award exercises | (607) | (262) |
| Proceeds from exercises of stock options | 1,346 | 835 |
| Net cash provided by financing activities | 739 | 573 |
| Net increase in cash and cash equivalents | 3,074 | 6,276 |
| Cash and cash equivalents at beginning of period | 11,165 | 7,958 |
| Cash and cash equivalents at end of period | \$ 14,239 | \$ 14,234 |

See accompanying notes to condensed consolidated financial statements.

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Market Leader, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(unaudited)

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Market Leader, Inc. (Market Leader or the Company), 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 135,000 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 and 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 give its customers access to millions of future home buyers and sellers, while providing consumers with free access to the information they seek.

On May 7, 2013, the Company entered into an Agreement and Plan of Merger with Trulia, Inc. (Trulia) and Mariner Acquisition Corp. (the Merger Agreement) pursuant to which Trulia will acquire the Company in a merger transaction valued at approximately \$355 million. The transaction requires the approval of the Company's shareholders and is subject to other customary closing conditions. The Company anticipates that the merger will close during the third quarter of 2013.

The Merger Agreement contains certain termination rights for both Trulia and the Company, including if the Merger is not completed on or before October 31, 2013 or if the Company's shareholders do not approve the Merger Agreement. The Merger Agreement also provides that, upon termination of the Merger Agreement under certain circumstances, the Company may be required to pay Trulia a termination fee of \$15 million. In addition, under certain specified circumstances, the Company may be required to reimburse Trulia's transaction expenses (subject to a cap of \$1.0 million).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012. All adjustments that are, in the opinion of management, necessary for the fair presentation of our results of operations, financial position and cash flows have been included and are of a normal, recurring nature. Operating results for the six months ended June 30, 2013 are not necessarily indicative of results to be expected for the full year.

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

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.

Subsequent Events We have evaluated subsequent events and transactions for potential recognition and disclosure in the financial statements through August 5, 2013, the day the financial statements were issued.

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 condensed 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 and stock appreciation rights for the

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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.

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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 collectability is reasonably assured. Revenue is recognized on a gross basis because we are the primary obligor for the services we provide to our customers, 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) 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.

Concentration of risk

Two customers accounted for 75% and 91% of trade accounts receivable as of June 30, 2013 and December 31, 2012, respectively.

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. We had \$9,573 and \$7,116 in money market funds as of June 30, 2013 and December 31, 2012 respectively, which were classified within the fair value hierarchy as Level 1 assets and accounted for at fair value.

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

Commitments and Contingencies

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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. Furthermore, in connection with the announcement of the Merger Agreement described above in Note 1, three purported class action lawsuits were brought on behalf of all Market Leader shareholders against the Company and certain other defendants. See Note 5 for a description of this litigation.

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 statements of operations.

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Basic loss per share is computed using the weighted average number of shares outstanding during the period. Diluted loss per share uses the weighted average common shares outstanding plus dilutive stock options and unvested restricted stock units using the treasury stock method. Because we have reported losses for the periods presented, none of our stock options, unvested restricted stock units, or stock appreciation rights are included in the diluted per share calculations.

Stock options and unvested restricted stock units 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.

The following table sets forth the computation of basic and diluted loss per share:

| Shares in thousands | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net loss | \$ (2,777) | \$ (2,146) | \$ (5,558) | \$ (4,668) |
| Weighted average common shares outstanding | 27,091 | 25,741 | 26,910 | 25,592 |
| Dilutive effect of equity-based awards | | | | |
| Diluted shares | 27,091 | 25,741 | 26,910 | 25,592 |
| Net loss per share basic and diluted | \$ (0.10) | \$ (0.08) | \$ (0.21) | \$ (0.18) |
| Antidilutive equity-based awards | 5,617 | 6,882 | 5,617 | 6,882 |
| Unvested restricted stock units | 459 | 839 | 459 | 839 |

Note 3: Cash, Cash Equivalents and Short-Term Investments

At June 30, 2013, cash, cash equivalents, and short-term investments consisted of the following:

| | Amortized Cost | Gross Unrealized Gains | Estimated Fair Value |
|---------------------------|-------------------|------------------------------|----------------------------|
| Cash | \$ 4,666 | \$ | \$ 4,666 |
| Money market account | 9,573 | | 9,573 |
| Cash and cash equivalents | \$ 14,239 | \$ | \$ 14,239 |

| | Amortized Cost | Gross Unrealized Gains | Estimated Fair Value |
|------------------------|-------------------|------------------------------|----------------------------|
| U.S. Treasury bills | \$ 6,998 | \$ | \$ 6,998 |
| Short-Term investments | \$ 6,998 | \$ | \$ 6,998 |

At December 31, 2012, cash, cash equivalents, and short-term investments consisted of the following:

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| | Amortized Cost | Gross Unrealized Gains | Estimated Fair Value |
|----------------------------------|-------------------|------------------------------|----------------------------|
| Cash | \$ 4,049 | \$ | \$ 4,049 |
| Money market account | 7,116 | | 7,116 |
| Cash and cash equivalents | \$ 11,165 | \$ | \$ 11,165 |

| | Amortized Cost | Gross Unrealized Gains | Estimated Fair Value |
|-------------------------------|-------------------|------------------------------|----------------------------|
| U.S. Treasury bills | \$ 11,034 | \$ 3 | \$ 11,037 |
| Short-Term investments | \$ 11,034 | \$ 3 | \$ 11,037 |

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Our U.S. Treasury bills are classified as held-to-maturity and are carried at amortized cost. The estimated fair value of the U.S. Treasury bills is based on quoted market prices for identical investments. 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 4: Supplemental Disclosure of Cash Flow Information

| | Six months ended June 30, | |
|---|------------------------------|-------|
| | 2013 | 2012 |
| Cash paid during the period for income taxes | \$ 8 | \$ 12 |
| Non-cash investing and financing activities: | | |
| Increase in payables for property and equipment | \$ 8 | \$ 6 |
| Equity issued in stock appreciation right exercises | \$ 276 | \$ |

Note 5: Legal Proceedings

In connection with the announcement of the Merger Agreement as described above in Note 1 to these unaudited condensed consolidated financial statements, three purported class action lawsuits brought on behalf of all Market Leader shareholders were filed in King County Superior Court: *Bruce Lynn v. Market Leader, et al.*, No. 13-2-20796-6, filed May 23, 2013; *Arjun Reddy v. Morris, et al.*, No. 13-2-21115-7, filed May 29, 2013; and *Jamason v. Market Leader, et al.*, No. 13-2-21190-4, filed May 29, 2013. The complaints in the three pending lawsuits are similar. The lawsuits allege, among other things, that Market Leader's board of directors breached its fiduciary duties to its shareholders by failing to maximize shareholder value or to engage in a fair sale process before approving the proposed acquisition of Market Leader by Trulia. The plaintiffs seek relief that includes an injunction prohibiting the consummation of the Merger, rescission to the extent the Merger terms have already been implemented, damages for the breaches of fiduciary duty, and payment of plaintiffs' attorneys' fees and costs. The Company believes these allegations are without merit and intends to defend the lawsuits vigorously. There can be no assurance, however, with regard to the outcome of these lawsuits. The three cases have been consolidated by the King County Superior Court under the caption *In re Market Leader Inc. Shareholder's Litigation*, No. 13-2-20796-6.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis by our management of our financial condition and results of operations in conjunction with our unaudited consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion and other parts of this Quarterly Report on Form 10-Q contain forward looking statements relating to our anticipated plans, products, services, and financial performance. The words will, 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 our actual results include, but are not limited to, those discussed under the heading Item 1A, Risk Factors below and in our Annual Report on Form 10-K for the year ended December 31, 2012 and in our other Securities and Exchange Commission filings. Given these risks and uncertainties, you should not place undue reliance on our forward-looking statements. The forward-looking statements are made as of the date of this report, and we assume no obligation to update any such 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.

Overview

Our Business

Market Leader, Inc., founded in 1999, provides innovative online technology and marketing solutions for real estate professionals across the United States and Canada. We serve more than 135,000 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 and 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 consumer real estate sites give its customers access to millions of future home buyers and sellers, while providing consumers with free access to the information they seek.

Review of Second Quarter 2013

On May 7, 2013, we entered into an Agreement and Plan of Merger with Trulia, Inc. (Trulia) and Mariner Acquisition Corp. (the Merger Agreement) pursuant to which Trulia will acquire Market Leader in a merger transaction valued at approximately \$355 million. The transaction requires the approval of our shareholders and is subject to other customary closing conditions. We anticipate that the merger will close during the third quarter of 2013.

The Merger Agreement contains certain termination rights for both Trulia and Market Leader, including if the Merger is not completed on or before October 31, 2013 or if our shareholders do not approve the Merger Agreement. The Merger Agreement also provides that, upon termination of the Merger Agreement under certain circumstances, we may be required to pay Trulia a termination fee of \$15 million. In addition, under certain specified circumstances we may be required to reimburse Trulia's transaction expenses (subject to a cap of \$1.0 million).

We achieved our fourteenth consecutive quarter of revenue growth, driven by demand for our software-as-a-service products as well as the continued ability to leverage our relationships with our more than 135,000 customers to drive additional sales of premium services.

Our primary goal is to continue to drive revenue growth, which we believe requires ongoing investment in customer acquisition. We sell directly to individual real estate brokerage offices and their agents, which has long been a core competency for us. We also have an effective strategy to build and maintain sales and marketing channel relationships with major franchise networks and large brokerage companies to sell from the top down. These strategic relationships enable us to tap into the influence, credibility, and existing sales and marketing infrastructure of these franchise networks to let us cost-effectively acquire high-value, premium customers.

We have built our first enterprise relationship over the past two years, and we launched additional enterprise rollouts in the first quarter with two more of the nation's leading franchises. These rollouts will further enhance our access to real estate professionals and we believe will contribute to continued revenue growth in the future.

Under these strategic enterprise agreements, we typically provide a base level version of our software-as-a-service products to agents and brokers enterprise-wide in exchange for specified contractual revenue over a number of years. These enterprise customers have a business incentive to partner with us and drive broad platform adoption of our software-as-a-service solutions because it helps foster success and performance improvements within their agent base. Our strategy is to leverage the resulting broad access to sell recurring subscriptions to our

premium services, including both software upgrades and marketing services. This strategy has contributed to our strong revenue growth.

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We believe our success in the enterprise space and our increasing access to real estate professionals is the result of providing an industry leading software-as-a-service solution that enhances our customers' productivity. During the second quarter of 2013, we continued to develop new features and enhance our software solution. Most notably, we launched new technology that enables agents to automatically capture leads from major real estate sites and increased direct mail functionality via targeted mailing lists with easy-to-use customized filters. We remain focused on continuing to make enhancements to our software solution and delivering more value to our growing base of customers.

Results of Operations**Revenues**

| | Three months ended June 30, | | Six months ended June 30, | |
|-------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues (in thousands) | \$ 13,686 | \$ 11,074 | \$ 26,610 | \$ 21,260 |

Revenues increased 24% and 25% for the three and six month periods ended June 30, 2013 compared to the same periods in 2012, driven by demand for our products at the professional and enterprise level, increased investment in customer acquisition, and upsells of our premium services to our broad customer base, supported by improved real estate market conditions.

Sales and Marketing

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|----------|------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Total sales and marketing expense (in thousands) | \$ 8,238 | \$ 6,999 | \$ 17,083 | \$ 14,027 |
| Total sales and marketing expense as a % of revenue | 60% | 63% | 64% | 66% |

Sales and marketing expense increased for the three and six months ended June 30, 2013 when compared to the same periods in 2012 but decreased slightly as a percentage of revenue. Our customer acquisition costs increased due to investments in additional sales capacity and marketing programs to drive continued revenue growth. Our customer servicing costs increased slightly, driven by growth in our customer base, but decreased as a percentage of revenue.

Technology and Product Development

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Total technology and product development expense (in thousands) | \$ 3,020 | \$ 2,762 | \$ 5,962 | \$ 5,101 |
| Total technology and product development expense as a % of revenue | 22% | 25% | 22% | 24% |

Technology and product development expense increased for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. The increase reflects growth in the business and the pace of our product innovation. The increase is also due to an increase in stock-based compensation expense primarily resulting from our increased stock price.

Table of Contents**General and Administrative**

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Total general and administrative expense (in thousands) | \$ 3,593 | \$ 1,855 | \$ 5,896 | \$ 3,710 |
| Total general and administrative expense as a % of revenue | 26% | 17% | 22% | 17% |

General and administrative expense increased for the three and six month period ended June 30, 2013 when compared to the same periods in 2012, primarily due to costs of \$1.1 million incurred in the second quarter in connection with the pending merger transaction with Trulia. In addition, general and administrative expense increased due to increased stock-based compensation expense primarily resulting from our increased stock price.

Stock-based Compensation

Stock-based compensation expense increased for the three and six month periods ended June 30, 2013 compared to the same periods in 2012 primarily due to the impact of our stock price increase on our liability-classified stock appreciation rights that are re-measured at the end of each reporting period. These awards were re-valued at the end of the second quarter when the share price used to re-measure the value of the liability awards was \$10.65, an increase from \$8.90 at the beginning of the quarter.

Depreciation and Amortization of Property and Equipment

Depreciation and amortization of property and equipment increased for the three and six month periods ended June 30, 2013 compared to the same periods in 2012 due to our ongoing additions to capitalized software development as we continue to deliver products to new enterprise customers and to develop new products.

Amortization of Acquired Intangible Assets

Amortization of intangible assets decreased slightly for the three and six month periods ended June 30, 2013 compared to the same periods in 2012, as intangible assets from prior acquisitions became fully amortized.

Interest Income and Expense, Net

Interest income remains immaterial as liquidity and security of principal continue to be core to our investment strategy, which results in low rates of return.

Income Tax Expense (Benefit)

Income tax expense (benefit) remains immaterial as we continue to record a full valuation allowance against our deferred tax assets.

Net Loss

Net loss has increased for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. While our revenues and Adjusted EBITDA have improved for those comparative periods, we have experienced an increase in stock-based compensation expense, discussed above. Additionally, our operating results for the second quarter were impacted by expenses we incurred in connection with the pending merger transaction with Trulia.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). 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

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under the circumstances. Actual results may differ from these estimates. We include a discussion of our critical accounting policies and estimates in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents**Quarterly Consolidated Statements of Income and Operational Data**

The following table presents unaudited operational data pertaining to our operations for the six quarters ended June 30, 2013. 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 our Annual Report on Form 10-K for the year ended December 31, 2012. Operating results for any quarter apply to that quarter only and are not necessarily indicative of results for any future period.

| | June 30, 2013 | Mar 31, 2013 | Dec. 31, 2012 | Sept. 30, 2012 | June 30, 2012 | Mar. 31, 2012 |
|---|------------------|-----------------|------------------|-------------------|------------------|------------------|
| | (in thousands) | | | | | |
| Operations Data: | | | | | | |
| Revenues | \$ 13,686 | \$ 12,924 | \$ 12,037 | \$ 11,691 | \$ 11,074 | \$ 10,186 |
| Expenses: | | | | | | |
| Sales and marketing | 8,238 | 8,845 | 7,263 | 7,699 | 6,999 | 7,028 |
| Technology and product development | 3,020 | 2,942 | 2,347 | 2,265 | 2,762 | 2,339 |
| General and administrative | 3,593 | 2,303 | 2,054 | 2,064 | 1,855 | 1,855 |
| Depreciation and amortization of property and equipment | 816 | 827 | 735 | 754 | 768 | 644 |
| Amortization of acquired intangible assets | 793 | 787 | 811 | 849 | 836 | 823 |
| Total expenses | 16,460 | 15,704 | 13,210 | 13,631 | 13,220 | 12,689 |
| Loss from operations | (2,774) | (2,780) | (1,173) | (1,940) | (2,146) | (2,503) |
| Interest income and expense, net | 4 | 6 | 8 | 7 | 8 | 9 |
| Loss before income tax | (2,770) | (2,774) | (1,165) | (1,933) | (2,138) | (2,494) |
| Income tax expense | 7 | 7 | 8 | 10 | 8 | 28 |
| Net loss | (2,777) | (2,781) | (1,173) | (1,943) | (2,146) | (2,522) |
| Adjusted EBITDA | \$ 1,337 | \$ 203 | \$ 913 | \$ 937 | \$ 260 | \$ (403) |

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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, and stock-based compensation, and excludes expenses incurred in connection with the pending merger transaction with Trulia as these are non-recurring expenses that are unrelated to our ongoing operations. 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.

| | June 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sept. 30, 2012 | June 30, 2012 | Mar. 31, 2012 |
|---|------------------|------------------|------------------|-------------------|------------------|------------------|
| | (in thousands) | | | | | |
| Reconciliation of GAAP Measurement to Adjusted EBITDA: | | | | | | |
| Net loss | \$ (2,777) | \$ (2,781) | \$ (1,173) | \$ (1,943) | \$ (2,146) | \$ (2,522) |
| Adjustments: | | | | | | |
| Stock-based compensation | 1,380 | 1,369 | 540 | 1,274 | 802 | 633 |
| Depreciation and amortization of property and equipment | 816 | 827 | 735 | 754 | 768 | 644 |
| Amortization of intangible assets | 793 | 787 | 811 | 849 | 836 | 823 |
| Merger-related expenses | 1,122 | | | | | |
| Other expense | 3 | 1 | | 3 | | 19 |
| Adjusted EBITDA | \$ 1,337 | \$ 203 | \$ 913 | \$ 937 | \$ 260 | \$ (403) |

Liquidity and Capital Resources

Currently, our principal source of liquidity is our cash, cash equivalents and short-term investments as well as the cash flow that we may generate from our operations. At June 30, 2013, our cash, cash equivalents and short-term investments totaled \$21.2 million.

Liquidity and security of principal continue to be core to our investment strategy, which results in low rates of return. As of June 30, 2013, 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 with terms of one year or less.

The following table presents summary cash flow data:

| | Six months Ended June 30, 2013 2012 (dollars in thousands) | |
|---|--|----------|
| Cash provided by (used in) operating activities | \$ 431 | \$ (315) |
| Cash provided by investing activities | 1,904 | 6,018 |
| Cash provided by financing activities | 739 | 573 |

Operating Activities

Cash flows from operating activities consist of our net loss adjusted for certain non-cash items, primarily depreciation, amortization, stock-based compensation, and the effects of changes in working capital. We generated \$0.4 million in cash from operations during the first six months of 2013, an increase of \$0.7 million compared to the same period in 2012. The increase was primarily due to an improvement in Adjusted EBITDA.

Investing Activities

Cash provided by investing activities for the first six months of 2013 was \$1.9 million compared to \$6.0 million for the same period in 2012, primarily due to timing of purchases and maturities of short term investments.

Financing Activities

Cash provided by financing activities during the first six months of 2013 increased compared to the same period last year primarily due to increased proceeds from the exercise of employee stock options.

Table of Contents**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of June 30, 2013.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve principal and liquidity without incurring significant risk. Because of ongoing market uncertainties, we continue to evaluate the security of our investments and the institutions where we hold our investments. As of June 30, 2013, we invested in U.S. Treasury securities money market funds with short-term weighted average duration and directly in U.S. Treasury securities. A hypothetical 10% increase/decrease in interest rates would not significantly change our annual interest income and cash flows.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* With the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2013. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2013.

(b) *Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting during the second fiscal quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We intend to continue to refine our internal control over financial reporting on an ongoing basis as we deem appropriate with a view towards continuous improvement.

PART II OTHER INFORMATION**Item 1. 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 such claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on us.

As disclosed in Note 1 to our unaudited condensed consolidated financial statements included in Part I, Item 1 of this report, on May 7, 2013 we entered into an Agreement and Plan of Merger with Trulia, Inc. (Trulia) and Mariner Acquisition Corp. (the Merger Agreement), pursuant to which Trulia will acquire the Company in a merger transaction. In connection with the announcement of the Merger Agreement as described above in Note 1 to the unaudited condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, three purported class action lawsuits brought on behalf of all Market Leader shareholders were filed in King County Superior Court: *Bruce Lynn v. Market Leader, et al.*, No. 13-2-20796-6, filed May 23, 2013; *Arjun Reddy v. Morris, et al.*, No. 13-2-21115-7, filed May 29, 2013; and *Jamason v. Market Leader, et al.*, No. 13-2-21190-4, filed May 29, 2013. The complaints in the three pending lawsuits are similar. The lawsuits allege, among other things, that Market Leader's board of directors breached its fiduciary duties to its shareholders by failing to maximize shareholder value or to engage in a fair sale process before approving the proposed acquisition of Market Leader by Trulia. The plaintiffs seek relief that includes an injunction prohibiting the consummation of the Merger, rescission to the extent the Merger terms have already been implemented, damages for the breaches of fiduciary duty, and payment of plaintiffs' attorneys' fees and costs. We believe these allegations are without merit and intend to defend the lawsuits vigorously. There can be no assurance, however, with regard to the outcome of these lawsuits. The three cases have been consolidated by the King County Superior Court under the caption *In re Market Leader Inc. Shareholders' Litigation*, No. 13-2-20796-6.

Item 1A. Risk Factors

The risk factors set forth below are in addition to the risk factors previously disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 15, 2013, which includes a detailed discussion of risk factors that could materially affect our business, financial condition and future results, and is herein incorporated by reference.

Risk Factors Related to the Proposed Merger with Trulia, Inc.

The Merger is subject to various closing conditions, including governmental approvals, and other uncertainties and there can be no assurances as to whether and when it may be completed

On May 7, 2013, we entered into the Agreement and Plan of Merger (the Merger Agreement) with Trulia, Inc. (Trulia) and Mariner Acquisition Corp, a wholly owned subsidiary of Trulia (Merger Sub). The Merger Agreement provides that, upon the terms

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and subject to the conditions set forth therein, Merger Sub will merge with and into the Company (the Merger), with the Company continuing as the surviving corporation and wholly owned subsidiary of Trulia. The consummation of the Merger is subject to customary closing conditions and a number of the conditions are not within our control, and may prevent, delay or otherwise materially adversely affect the completion of the transaction. These conditions include, among other things, (i) receiving the required approval of the Company's shareholders, (ii) the approval of the listing on the New York Stock Exchange of the shares of Trulia common stock to be issued in the Merger. It also is possible that a change, event, fact, effect or circumstance could occur that could lead to a material adverse effect to the Company, which may give Trulia the ability to not complete the Merger. In addition, the absence of a decree, ruling or preliminary or permanent injunction of any governmental entity having jurisdiction which prohibits, restrains or enjoins consummation of the Merger, is a condition to completion of the Merger. As further described in Part II, Item 1 of this Quarterly Report on Form 10-Q, we are party to certain litigation seeking to relief that may include an injunction prohibiting consummation of the merger transaction with Trulia. This litigation may result in a delay in or prevent the completion of the Merger.

We cannot predict with certainty whether and when any of the required closing conditions will be satisfied or if another uncertainty may arise. If the Merger does not receive, or timely receive, the required regulatory approvals and clearances, or if another event occurs delaying or preventing the Merger, such delay or failure to complete the Merger may cause uncertainty or other negative consequences that may materially and adversely affect our sales, financial performance and operating results, and the price per share for our common stock and perceived acquisition value.

If the Merger Agreement is terminated, we may, under certain circumstances, be obligated to pay a termination fee or a break-up fee to Trulia. These costs could require us to use available cash that would have otherwise been available for general corporate purposes.

If the Merger Agreement is terminated, in certain circumstances, we would be required to reimburse Trulia for up to \$1 million in transaction expenses. Also, in connection with the termination of the Merger Agreement under certain circumstances, we could be required to pay a termination fee of \$15 million. If the Merger Agreement is terminated, the expense reimbursement and the termination fee we may be required to pay, if any, under the Merger Agreement may require us to use available cash that would have otherwise been available for general corporate purposes. For these and other reasons, a failed Merger could materially and adversely affect our business, operating results or financial condition, which in turn would materially and adversely affect our business or financial condition, the price per share of our common stock or our perceived acquisition value.

While the Merger is pending, we are subject to business uncertainties and contractual restrictions that could materially adversely affect our operations and the future of our business or result in a loss of employees.

The Merger Agreement includes restrictions on the conduct of our business prior to the completion of the Merger, generally requiring us to conduct our business in the ordinary course and subjecting us to a variety of specified limitations absent Trulia's prior written consent. We may find that these and other contractual arrangements in the Merger Agreement may delay or prevent us from or limit our ability to respond effectively to competitive pressures, industry developments and future business opportunities that may arise during such period, even if our management thinks they may be advisable. The pendency of the Merger may also divert management's attention and our resources from ongoing business and operations. Our employees, customers and suppliers may have uncertainties about the effects of the Merger. In connection with the pending Merger, it is possible that some customers, suppliers and other persons with whom we have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationship with us as a result of the Merger. Similarly, current and prospective employees may experience uncertainty about their future roles with us following completion of the Merger, which may materially adversely affect our ability to attract and retain key employees. If any of these effects were to occur, it could materially and adversely impact our revenues, earnings and cash flows and other business results and financial condition, as well as the market price of our common stock and our perceived acquisition value, regardless of whether the Merger is completed. In addition, whether or not the Merger is completed, while it is pending we will continue to incur costs, fees, expenses and charges related to the proposed Merger, which may materially and adversely affect our business results and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In October 2006, our Board of Directors authorized a share repurchase program to purchase and retire up to two million shares of our common stock. We did not make any purchases pursuant to the share repurchase program during the second quarter of 2013. At June 30, 2013, 928,043 shares remain available for purchase under the share repurchase program.

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Item 6. Exhibits

Exhibit

Number Description of Document

| | |
|-------|--|
| 2.1 | Agreement and Plan of Merger, dated as of May 7, 2013, by and among Market Leader, Inc., Mariner Acquisition Corp. and Trulia, Inc., incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on May 8, 2013 (File No. 000-51032) |
| 10.1 | Form of Voting Agreement, dated May 7, 2013, by and among Trulia, Inc. and each of the directors and executive officers of Market leader, Inc., incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed on May 8, 2013 (file No. 000-5103) |
| 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 and Chief Financial Officer. |
| 101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL: (i) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012 (unaudited), (ii) Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012 (unaudited), (iii) Condensed Consolidated Statements of Shareholders' Equity for the six months ended June 30, 2013 (unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012 (unaudited), and (v) Notes to Consolidated Financial Statements (unaudited). |

+ Filed herewith.

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SIGNATURES

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

MARKET LEADER, INC.

By: */s/ JACQUELINE DAVIDSON*
Jacqueline Davidson
Chief Financial Officer
Authorized Officer and Principal Financial
Officer and Principal Accounting Officer

Date: August 5, 2013