

Market Leader, Inc.  
Form DEF 14A  
April 16, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**SCHEDULE 14A INFORMATION**  
**PROXY STATEMENT PURSUANT TO SECTION 14(a)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

**Market Leader, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.



3) Filing Party:

4) Date Filed:

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held on May 24, 2012**

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Market Leader, Inc. ( "Market Leader" ) which will be held on May 24, 2012 at 10:00 a.m. local time at Market Leader's principal executive offices located at 11332 NE 12<sup>th</sup> Way, Suite 200, Kirkland, WA 98034. Shareholders of record who owned our common stock at the close of business on March 30, 2012, are entitled to vote at the Annual Meeting. At the Annual Meeting we will ask you to:

elect one director to our Board of Directors to serve for a term as more fully described in the accompanying Proxy Statement;

ratify the appointment of KPMG LLP, as Market Leader's Independent Registered Public Accounting Firm for fiscal year 2012; and

transact any other business properly presented at the Annual Meeting.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSED DIRECTOR DESCRIBED IN THE PROXY STATEMENT AND FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP, AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2012.**

To assure your representation at the Annual Meeting, you are urged to submit your proxy as promptly as possible. Registered shareholders may vote by Internet, by telephone or by completing, signing, dating and returning the enclosed proxy card as promptly as possible in the enclosed postage prepaid envelope. Your shares will be voted in accordance with your instructions. You may attend the Annual Meeting and vote in person even if you have previously returned your proxy card or voted by Internet or telephone.

If your shares are registered in the name of a broker, bank or other holder of record, please follow the voting instructions you receive from the holder of record to vote your shares. If your shares are registered in the name of a broker, bank or other holder of record and you plan to attend the Annual Meeting in person, please bring a letter, account statement or other evidence of your beneficial ownership as of March 30, 2012 to the Annual Meeting.

**Important Notice Regarding the Availability of Proxy Materials**

**for the Shareholder Meeting to Be Held on May 24, 2012**

The proxy statement, 2011 annual report to shareholders and other proxy materials are available at

<http://www.RRDEZProxy.com/2012/LEDR>

By Order of the Board of Directors,

Ian Morris

*President and Chief Executive Officer*

April 16, 2012

**MARKET LEADER, INC.**

**PROXY STATEMENT**

**FOR**

**2012 ANNUAL MEETING OF SHAREHOLDERS**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**General**

This Proxy Statement is being furnished in connection with the solicitation by the Board of Directors of Market Leader, Inc. ( Market Leader ) of proxies for use at the 2012 Annual Meeting of Shareholders (the Annual Meeting ) to be held at Market Leader 's principal executive offices located at 11332 NE 122<sup>nd</sup> Way, Suite 200, Kirkland, WA 98034 at 10:00 a.m. local time on May 24, 2012. Market Leader 's telephone number at its principal executive offices is 425-952-5500. You may contact us at this telephone number to obtain directions to be able to attend the Annual Meeting and vote in person. It is expected that this Proxy Statement and the accompanying proxy card will be mailed to shareholders on or about April 23, 2012.

**Record Date and Outstanding Shares**

Shareholders of record who owned our common stock at the close of business on Friday, March 30, 2012 are entitled to notice of and to attend and vote at the Annual Meeting. On that date, 25,575,723 shares of common stock were issued and outstanding.

**Voting Procedures**

*Proxies*

Registered shareholders may vote by mail, by telephone or by Internet.

To vote by mail, please complete, sign, date and mail your proxy card in the postage prepaid envelope provided. Proxies should be mailed sufficiently in advance to ensure receipt prior to the Annual Meeting.

To vote by telephone, call toll-free 1-866-540-5760 from any touch-tone telephone and follow the instructions. Have your proxy card available when you call. If you vote by phone, you do not need to mail your proxy card. Telephone voting is available until 11:59 p.m. Eastern on May 23, 2012.

You can vote on the Internet at <http://www.proxyvoting.com/LEDR>. Have your proxy card in hand when going online and follow the online instructions. If you vote by the Internet, you do not need to mail your proxy card. Internet voting is available up until 11:59 p.m. Eastern on May 23, 2012.

If your shares are held of record in the name of a bank, broker or other nominee you should follow the separate instructions that the nominee provides to you. Although most banks and brokers now offer telephone and Internet voting, availability and specific processes will depend on their voting arrangements.

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If the Annual Meeting is postponed or adjourned for any reason, at any subsequent reconvening of the Annual Meeting all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the Annual Meeting, except for any proxies that have at that time effectively been revoked or withdrawn, even if the proxies had been effectively voted on the same or any other matter at a previous meeting.

### ***In Person at the Annual Meeting***

If you attend the Annual Meeting and wish to vote in person, you may request a ballot when you arrive. If your shares are held of record in the name of your bank, broker or other nominee and you would like to vote in

person at the Annual Meeting, you must bring to the Annual Meeting a letter, account statement or other evidence from the nominee indicating that you were the beneficial owner of the shares on March 30, 2012, the record date for the Annual Meeting.

#### **Revocability of Proxies**

If you give your proxy card to us or vote by telephone or the Internet, you have the power to revoke your proxy or change your vote by taking any of the following actions before your proxy is voted at the Annual Meeting:

Voting again by telephone or Internet;

notifying the Secretary of Market Leader in writing before the Annual Meeting;

delivering to the Secretary of Market Leader before the Annual Meeting a signed proxy card with a later date; or

attending the Annual Meeting and voting in person.

However, attendance at the Annual Meeting will not, by itself, revoke a proxy.

#### **Matters Being Presented at the Annual Meeting**

You are being asked to elect one director to our Board of Directors nominated by the Board to serve until the 2015 Annual Meeting of Shareholders and to ratify the appointment of KPMG LLP as our independent registered public accounting firm.

#### **Quorum and Voting**

The presence at the Annual Meeting, in person or by proxy, of the holders of at least a majority of the shares of common stock outstanding on the record date will constitute a quorum for purposes of conducting business at the Annual Meeting. Abstentions and broker non-votes will be included in determining the presence of a quorum at the Annual Meeting.

For the proposal relating to the election of the director, the nominee for election to the Board of Directors who receives the greatest number of affirmative votes cast by holders of common stock present, in person or by proxy, and entitled to vote at the Annual Meeting, will be elected to the Board of Directors. You are not entitled to cumulate votes in the election of directors. In a plurality election such as this, broker non-vote, abstentions and withhold votes have no effect on the outcome, since approval by a specified percentage of the shares present or outstanding is not required to elect directors.

For the proposal relating to the ratification of KPMG LLP as our independent registered public accounting firm as well as any other proposals that properly come before the meeting, the votes cast for must exceed the votes cast against to be approved. Abstentions and, if applicable, broker non-votes are not counted as votes for or against these proposals and therefore do not affect the outcome.

You are entitled to one vote for each share of common stock you held as of the record date. If your shares are represented by proxy, they will be voted in accordance with your directions. If your proxy is signed and returned without any directions given, your shares will be voted in accordance with our Board of Directors' recommendations.

We are not aware, as of the date of this Proxy Statement, of any matters to be voted on at the Annual Meeting other than as stated in this Proxy Statement and the accompanying Notice of Annual Meeting of Shareholders. If any other matters are properly brought before the Annual Meeting, the enclosed proxy and proxies submitted by telephone or the Internet gives discretionary authority to the persons named as proxy to vote the shares in their best judgment.



Other than for purposes of determining the presence of a quorum, abstentions and broker non-votes will have no effect on the proposals to be voted on at the Annual Meeting because they will not represent votes cast at the Annual Meeting for the purposes of voting on such proposals.

Broker non-votes occur when a person holding shares through a bank or brokerage account does not provide instructions as to how his or her shares should be voted and the broker either does not exercise, or is not permitted to exercise, discretion to vote those shares on a particular matter. Brokers may exercise discretion to vote shares as to which instructions are not given with respect to the ratification of the appointment of KPMG LLP, as Market Leader's independent registered public accounting firm for fiscal year 2012, but may not exercise discretion to vote shares as to which instructions are not given with respect to the election of directors.

#### **Solicitation of Proxies**

Proxies may be solicited by certain of our directors, officers and regular employees, without payment of any additional compensation to them. Proxies may be solicited by personal interview, mail, electronic mail or telephone. Market Leader will bear any costs relating to such solicitation of proxies. However, you will need to obtain your own Internet access if you choose to access the proxy materials over the Internet. In addition, Market Leader may reimburse banks, brokerage firms and other persons representing beneficial owners of shares of common stock for their expenses in forwarding proxy materials to such beneficial owners.

#### **PROPOSAL 1 ELECTION OF DIRECTORS**

In accordance with our Bylaws, the Board of Directors shall be composed of not less than five nor more than nine directors, the specific number to be set by resolution of the Board of Directors.

Our Board of Directors is divided into three classes: Class 1, made up of three directors; Class 2, made up of two directors; and Class 3, made up of two directors. Our Board of Directors is currently comprised of six directors, with one vacancy in Class 2. Directors will be elected for three-year terms that are staggered such that a portion of the directors are elected each year. Generally, one class of directors will be elected each year by our shareholders. Each director will hold office until the election and qualification of his or her successor or upon earlier resignation or removal. This year, the term of one Class 2 director expires. Accordingly, one nominee for the Board of Directors will be elected at the Annual Meeting to serve as a Class 2 director for a three-year term expiring in 2015. The Board of Directors may add additional directors when it identifies suitable candidates who are willing to serve as directors of Market Leader. Additional directorships resulting from an increase in the number of directors will be distributed among the three classes, so that as nearly as possible each class will consist of an equal number of directors.

Biographical information for our Board of Directors is set forth below. Ages listed are as of March 30, 2012.

The Board of Directors has no reason to believe that the nominee named below will be unable to serve as a director. If, however, if the nominee should be unwilling or unable to serve, the persons named as proxies will have discretionary authority to vote for the election of such substitute nominee(s) as may be designated by the Board of Directors.

Unless you indicate otherwise, the persons named as proxies will vote **FOR** the election of the nominee listed below.

#### **Class 2 Director Term Expiring in 2015**

*Nicolas J. Hanauer*, age 52, has served as a director since December 2000. Since March 2000, Mr. Hanauer has served as a partner with Second Avenue Partners, which he co-founded. In 2000, Mr. Hanauer also founded and served as Chairman of Gear.com, an online sporting goods company, until its merger with Overstock.com in 2001. From 2001 to 2004, Mr. Hanauer acted as Chief Executive Officer and Co-Chairman of Pacific Coast

Feather Company, a pillow and bedding manufacturing company. He was employed at Pacific Coast Feather as its Executive Vice President of Sales and Marketing from 1990 to 2000. In 1997, Mr. Hanauer co-founded aQuantive, Inc. (formerly Avenue A, Inc.), an Internet media company, where he served as Chief Executive Officer from June 1998 to September 1999. He is a board member of Marchex, Inc. Mr. Hanauer holds a B.A. from the University of Washington. Mr. Hanauer's individual qualification and skills as a director include his specific experience in business and technology innovation, as well as, investment strategy and strategic planning.

*The Board of Directors recommends voting FOR the election of the nominee named above.*

#### **DIRECTORS CONTINUING IN OFFICE**

##### **Class 1 Director Nominees Standing for Election Terms Expiring in 2014**

*Jon W. Gacek*, age 50, has served as a director since November 2004. Mr. Gacek currently serves as President and Chief Executive Officer of Quantum Corporation ( Quantum ), a publicly traded company that provides network storage subsystems. He served as Chief Financial Officer and Executive Vice President Finance and Operations of Advanced Digital Equipment Corporation ( ADIC ) from November 1999 until August 2006, when ADIC was acquired by Quantum. From 1996 to 1999, Mr. Gacek served as a partner at PricewaterhouseCoopers LLP, a registered public accounting firm. From September 2002 until June 2009, Mr. Gacek served as a director of Loud Technologies, Inc., a public company until March 2009. Since November 2008, Mr. Gacek has served as a director of Power-One, Inc., a publicly traded company. Mr. Gacek holds a B.A. from Western Washington University. We believe that Mr. Gacek's qualifications to serve as a director include his specific experience in corporate finance and accounting, operations, and corporate governance, as well as his strong skills in strategic planning, and mergers and acquisitions.

*Richard A. Mendenhall*, age 67, has served as a director since August 2004. Mr. Mendenhall has co-owned Resource Home Loans, a real estate mortgage firm, since 1995. Since 1991, Mr. Mendenhall has owned, co-owned, and served as a broker in a variety of real estate brokerage firms affiliated with RE/MAX International, Inc., a global real estate agency network. Since 1974, Mr. Mendenhall has owned Boone Realty Corporation, a real estate commercial brokerage firm. Mr. Mendenhall served as President of the National Association of Realtors in 2001. He also serves as director of a number of privately held companies. Mr. Mendenhall holds an M.A. and a B.S. from the University of Missouri. We believe that Mr. Mendenhall's qualification to serve as a director include his specific experience in real estate and technology, as well as strong skills in providing business strategy and development guidance.

*Ian Morris*, age 43, has served as our Chief Executive Officer since June 2003 and a director since April 2004. Mr. Morris joined Market Leader in June 2002 as Executive Vice President of Marketing and Business Development and served as our Chief Operating Officer from September 2002 to May 2003. From 1997 to 2002, Mr. Morris served in a variety of positions for MSN HomeAdvisor, the online real estate business of Microsoft Corporation, a software and technology company, including Director of Marketing, Group Manager and General Manager. Mr. Morris holds an M.B.A. from Harvard Business School and a B.S. from Bryant College. We believe that Mr. Morris' qualification to serve as a director include his specific experience in business and technology innovation, as well as, investment strategy and strategic planning.

##### **Class 3 Directors Terms Expiring in 2013**

*Frank M. ( Pete ) Higgins*, age 54, is the Chairman of the Board and has served as a director since April 2004. Since March 2000, Mr. Higgins has served as a partner with Second Avenue Partners, which he co-founded. From 1983 to 1999, Mr. Higgins worked for Microsoft Corporation. During his time at Microsoft, Mr. Higgins served as Group Vice President of the Interactive Media Group from 1996 to 1998, Group Vice President of Applications and Content from 1995 to 1996, Senior Vice President of the Desktop Applications Division from 1992 to 1995, and General Manager and then Vice President of the Analysis Business Unit from

1988 to 1992. Mr. Higgins was also a member of the Office of the President, reporting to then CEO Bill Gates. Mr. Higgins is a director of a number of privately held companies, including Ice Energy, Modumetal, and Rubicon Interactive. He is a strategic director of Madrona Investments Partners, LLC, a venture capital firm. Mr. Higgins also serves on the Board of Trustees for Stanford University and Hoh River Trust. Mr. Higgins holds an M.B.A. and an undergraduate degree in economics and history from Stanford University. We believe that Mr. Higgins' qualifications to serve as a director include his extensive experience in product and software development, business strategy, development and marketing, as well as public company executive compensation.

*Michael T. Galgon*, age 44, has served as a director since April 2010, when he was appointed to fill a vacancy in Class 3 of our Board of Directors. Mr. Galgon served as Chief Advertising Strategist for Microsoft Corporation from August 2007 until January 2009. In 1997, Mr. Galgon co-founded aQuantive, Inc. (formerly Avenue A, Inc.), an Internet media company, where he served as President and General Manager from 1997 through 1999, and as Chief Strategy Officer from 2000 to 2007. Prior to founding aQuantive, Mr. Galgon served as a full-time volunteer with Volunteers In Service To America (VISTA) from October 1994 to October 1995 and as an officer in the U.S. Navy from 1990 to 1994. He currently serves as a director for BuddyTV, a privately held company, and for Global Partnerships, a Seattle-based microfinance organization. Mr. Galgon holds an M.B.A. from the Harvard Business School and a B.A. in economics from Duke University. We believe that Mr. Galgon's qualifications to serve as a director include his extensive software, technology, advertising, and merger and acquisition expertise, as well as strong skills in business strategy, development and marketing.

## **BOARD OF DIRECTORS AND CORPORATE GOVERNANCE**

### **Independence of the Board of Directors**

The Board of Directors has reviewed the relationships between Market Leader and each of its directors and has determined that all of the directors other than Mr. Morris, who currently serves as our Chief Executive Officer and President, are independent as that term is defined in the listing standards of The Nasdaq Stock Market.

### **Board Leadership Structure and Role in Risk Oversight**

The positions of Chief Executive Officer and Chairman are held by different persons. The Chief Executive Officer is responsible for setting the strategic direction for our Company and for the day to day leadership and performance of the Company, including execution of its strategy, while the Chairman of the Board provides guidance to the Chief Executive Officer, sets the agenda for meetings of the Board of Directors, and presides over meetings of the full Board. The Board of Directors believes that this leadership structure enhances its oversight of, and independence from, Market Leader's management and the Board's ability to carry out its roles and responsibilities on behalf of shareholders.

The Board of Directors' role in our risk oversight process includes receiving regular reports from members of senior management on areas of material risk to our Company, including operational, financial, legal, regulatory and strategic risks. While the Board of Directors is ultimately responsible for risk oversight, each of the committees of the Board of Directors assists in fulfilling these oversight responsibilities. The Audit Committee oversees management of operational and financial risks. The Compensation Committee is responsible for overseeing the management of risks relating to the compensation of executives, employees and non-employee directors. The Nominating and Corporate Governance Committee manages risks associated with corporate governance, including the independence of directors and composition of our Board of Directors.

### **Board Attendance**

During 2011, there were five meetings of the Board of Directors. In addition, the Board of Directors acted seven times by written consent in 2011. Except for Mr. Hanauer, each of our directors attended at least 75% of the aggregate of (a) the total number of meetings of the Board of Directors and (b) the total number of meetings

held by each of the committees on which he served in 2011. Market Leader does not have a formal policy with regard to director attendance at its Annual Meeting of Shareholders, but encourages each director to attend. No directors other than Mr. Morris attended the 2011 Annual Meeting of Shareholders.

### Director Compensation

The Board of Directors has established director cash and equity compensation arrangements for our non-employee directors that are designed and implemented to ensure we both attract and retain high quality Board members. The program consists of an annual cash retainer for non-employee directors, an annual cash retainer for committee chairs, Board and committee meeting fees and an annual stock option grant. Directors who are employees of our company receive no additional or special remuneration for serving as directors.

### Cash Component

Non-employee directors are entitled to receive the following cash compensation annually, in addition to reimbursement for out-of-pocket expenses:

	Annual Retainer (\$)	Fees for in-person meeting attendance (\$)	Fees for meeting attendance via teleconference (\$)
Directors	12,000	1,000	250
Committee Chair:			
Audit	10,000	500	250
Compensation	4,000	500	250
Nominating and Corporate Governance	1,000	500	250
Committee Members		500	250

### Equity Component

For 2011, non-employee directors, other than the Chairman of the Board, were granted an annual stock option to purchase 15,000 shares of our common stock. For 2011, the Chairman of the Board was granted an annual stock option to purchase 25,000 shares of our common stock. The options are granted under our Amended and Restated 2004 Equity Incentive Plan ( 2004 Equity Incentive Plan ) at the beginning of the year and vest one year later, subject to continued service as a director until such date. The options have an exercise price equal to the average of the high and low prices of our common stock on the date of grant. The unvested portions of such options automatically become fully vested and exercisable in the event of certain corporate transactions, such as a merger or sale of assets.

### 2011 Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$)(1)	Total (\$)
Jon Gacek (2)	29,000	11,733	40,733
Michael Galgon (3)	18,500	11,733	30,233
Nicolas Hanauer (4)	17,500	11,733	29,233
Frank ( Pete ) Higgins (5)	24,000	19,555	43,555
Richard Mendenhall (6)	18,250	11,733	29,983

- (1) Reflects aggregate grant date fair value of option awards, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ( FASB ASC Topic 718 ). See Note 12, under the heading Stock Option Plans and Stock-Based Compensation in the Notes to Consolidated Financial Statements set forth in our Annual Report on Form 10-K filed on March 19, 2012, for assumptions made in determining these amounts.
- (2) Mr. Gacek held options for 117,000 shares at December 31, 2011.



- (3) Mr. Galgon held options for 25,000 shares at December 31, 2011.
- (4) Mr. Hanauer held options for 67,000 shares at December 31, 2011.
- (5) Mr. Higgins held options for 77,000 shares at December 31, 2011.
- (6) Mr. Mendenhall held options for 87,000 shares at December 31, 2011.

**Committees of the Board of Directors**

The Board of Directors has three standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee.

Our current directors' memberships on the committees of the Board of Directors are as follows:

Name	Audit	Compensation	Nominating and Corporate Governance
	Committee	Committee	Committee
Jon Gacek	Chair		Chair
Michael Galgon		Member	Member
Nicolas Hanauer	Member	Member	
Frank ( Pete ) Higgins	Member	Chair	
Richard Mendenhall		Member	Member

*Audit Committee*

The Audit Committee is composed of three independent directors. The Audit Committee assists the Board of Directors by overseeing our accounting and financial reporting processes and the audits of our financial statements and reviewing the financial information to be provided to our shareholders and others. Among other duties and responsibilities specified in its written charter, the Audit Committee:

selects, appoints and oversees the outside independent registered public accounting firm (independent auditor), resolves disagreements between management and the independent auditor regarding financial reporting, approves the compensation of the independent auditor, and, as necessary, reviews and approves the discharge of the independent auditor;

pre-approves all audit and permissible non-audit services provided by our independent auditors;

considers and reviews with management any reports by management regarding the effectiveness of, or any deficiencies in, the design and operation of internal controls, any material weaknesses in internal controls, and any fraud, whether or not material, that involves management or other employees who have significant roles in internal control;

reviews our audited financial statements, filing of reports with the Securities and Exchange Commission ( SEC ) and other published documents containing our financial statements and earnings press releases prior to issuance, filing or publication; and

reviews and approves all related person transactions, as that term is defined in Item 404 of Regulation S-K.

The Board of Directors has determined that, under the rules of the SEC and the applicable listing standards of The Nasdaq Stock Market, all of the members of the Audit Committee are independent and financially literate. The Board of Directors has also determined that Mr. Gacek meets the SEC criteria for audit committee financial expert.

The Audit Committee held four meetings in 2011. In addition, the Audit Committee acted one time by written consent in 2011.

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A copy of the Audit Committee's written charter can be accessed at the [Corporate Governance](#) link on the Investor Relations section of our website, located at [www.marketleader.com](http://www.marketleader.com).

*Compensation Committee*

Our Compensation Committee is composed of four directors. The Compensation Committee has overall responsibility for approving and evaluating compensation plans, policies and programs for our executive officers. The Compensation Committee, when appropriate, may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Board of Directors or Market Leader's officers. Among other duties and responsibilities specified in its written charter, the Compensation Committee:

develops executive compensation philosophy and establishes and annually reviews and approves policies regarding executive compensation programs and practices;

reviews and approves corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluates the Chief Executive Officer's performance in light of those goals and objectives and determines the Chief Executive Officer's compensation based on this evaluation;

reviews and approves annual compensation for the other executive officers based on established plans and philosophy and recommendations from the Chief Executive Officer;

establishes and administers annual and long-term incentive compensation plans for executive officers and directors; and

administers our 1999 Stock Incentive Plan and 2004 Equity Incentive Plan.

Additionally, our Chief Executive Officer and Chief Financial Officer have a role in recommending the amount and form of compensation for executive officers. The Chief Executive Officer reports to the Compensation Committee periodically on the results of the evaluations of our executive officers (other than the CEO). In addition to the CEO's involvement in setting individual performance goals, conducting evaluations and making compensation recommendations for other executive officers, our management team plays an active role in updating the Compensation Committee on the trends and challenges of hiring, retaining and competing for talent. The management team periodically suggests alternative forms of compensation or compensation strategies to the Compensation Committee that will enable us to attract and retain key talent.

Market Leader retains Milliman, Inc. (Milliman), as directed by the Compensation Committee, to act as an independent compensation consultant to the Compensation Committee. Milliman works with management and the Compensation Committee on executive compensation program design and provides information on comparative market data and industry best practices on compensation practices and programs. Milliman does not determine or recommend executive or director compensation, but rather provides the Compensation Committee with guidance based on comparative market data and Milliman's experience and understanding of Market Leader's needs and objectives.

Each of the Compensation Committee members is (i) independent in accordance with applicable listing standards of The Nasdaq Stock Market, (ii) a non-employee director within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and (iii) an outside director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Compensation Committee held four meetings in 2011. In addition, the Compensation Committee acted three times by written consent in 2011.

A copy of the Compensation Committee's written charter can be accessed at the [Corporate Governance](#) link on the Investor Relations section of our website, located at [www.marketleader.com](http://www.marketleader.com).

*Nominating and Corporate Governance Committee*

Our Nominating and Corporate Governance Committee is composed of three directors. The principal functions of the Nominating and Corporate Governance Committee are to:





identify individuals qualified to become members of the Board of Directors;

approve and recommend director candidates to the Board of Directors;

develop, update as necessary and recommend to the Board of Directors corporate governance principles and policies applicable to us and monitor compliance with such principles and policies; and

establish, coordinate and review with the Board of Directors criteria and methods for evaluating board effectiveness.

Each of the Nominating and Corporate Governance Committee members is independent in accordance with applicable listing standards of The Nasdaq Stock Market.

The Nominating and Corporate Governance Committee took action by written consent once in 2011.

A copy of the Nominating and Corporate Governance Committee's written charter can be accessed at the Corporate Governance link on the Investor Relations section of our website, located at [www.marketleader.com](http://www.marketleader.com).

### **Director Nominations and Qualifications**

To nominate a director for election to the Board of Directors at an Annual Meeting of Shareholders, a shareholder must deliver written notice of such nomination to the Secretary of Market Leader not fewer than 60 days nor more than 90 days prior to the anniversary date of the prior year's Annual Meeting of Shareholders. If the date of the Annual Meeting of Shareholders is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's Annual Meeting of Shareholders, notice of director nominations by a shareholder must be delivered not earlier than the close of business on the 90th day and not later than the close of business on the later of (a) the 60th day prior to such annual meeting or (b) the tenth day following the day on which the notice of the date of the Annual Meeting of Shareholders was mailed or such public disclosure was made.

The notice of a shareholder's intention to nominate a director must include: (a) the name and address of the shareholder; (b) a representation that the shareholder is entitled to vote at the meeting at which directors will be elected; (c) a statement of the number of Market Leader shares that are beneficially owned by the shareholder; (d) a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; and (e) the following information with respect to each person nominated by the shareholder: (i) name and address; (ii) other information regarding such nominee as would be required in a proxy statement filed pursuant to applicable rules promulgated by the SEC; (iii) a description of any arrangements or understandings between the shareholder and the nominee and any other persons (including their names), pursuant to which the nomination is made; and (iv) the consent of each such nominee to serve as a director if elected.

The Nominating and Corporate Governance Committee will consider director candidates recommended by shareholders. Shareholders who wish to recommend a director nominee should submit their suggestions in writing to the following:

Chairperson of Nominating and Corporate Governance Committee

c/o Corporate Secretary

Market Leader, Inc.

11332 NE 122nd Way, Suite 200

Kirkland, WA98034

The Chairman of the Board, other directors or senior management of Market Leader may also recommend director nominees. If necessary or desirable in the opinion of the Nominating and Corporate Governance Committee, the Committee will determine appropriate means for seeking additional director candidates, which may involve the engagement of an outside consultant to assist the Nominating and Corporate Governance Committee in the identification of director candidates.



The Nominating and Corporate Governance Committee will evaluate director nominees, including nominees that are submitted by shareholders, taking into consideration certain qualifications, including the following:

high standard of personal and professional ethics, integrity and values;

training, experience and ability at making and overseeing policy in business, government and/or education sectors;

willingness and ability to devote the required time and effort to effectively fulfill the duties and responsibilities related to Board and committee membership;

willingness not to engage in activities or interests that may create a conflict of interest with a director's responsibilities and duties to Market Leader and its constituents; and

willingness to act in the best interests of Market Leader and its constituents, and objectively assess Board, committee and management performances.

In addition, the Nominating and Corporate Governance Committee will consider the following factors, among others, when determining Board needs and evaluating director candidates to fill such needs: the nominee's independence, diversity, professional and public company board and committee experience, industry knowledge, accounting or financial skills and expertise, leadership qualities, non-business-related activities and experience, board continuity, the size of the board, number and type of committees and committee sizes, and legal and Nasdaq Stock Market requirements and recommendations and other corporate governance related guidance regarding board and committee composition. Although the Board of Directors has no formal policy regarding diversity, diversity is listed as one of the factors in the Director Selection Guidelines to be considered by the Nominating and Corporate Governance committee in evaluating appropriate director candidates, among other factors. Neither the Director Selection Guidelines nor any other policy of the Board of Directors or any of its committees define diversity or set any affirmative goals with respect to diversity on our Board of Directors. Neither the Director Selection Guidelines nor any other policy of the Board of Directors or any of its committees specifically address how we implement the guideline of considering diversity as a factor in evaluating director candidates, nor is there any process or procedure for assessing whether we are effective in considering diversity as a factor in evaluating director candidates. The Nominating and Corporate Governance Committee does not assign specific weight to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Board of Directors believes that the backgrounds and qualifications of the directors, considered as a group, should provide an overall mix of skills and characteristics that will allow the Board to function effectively.

#### **Shareholder Communications with the Board**

Shareholders may contact an individual director or the Board of Directors collectively by directing written correspondence to Market Leader, Inc., c/o Corporate Secretary, at 11332 NE 122<sup>nd</sup> Way, Suite 200, Kirkland, WA98034.

Shareholders should clearly specify in each communication the name of the individual director or group of directors to whom the communication is addressed. Shareholder communications sent to the Secretary of Market Leader will be forwarded to the specified director addressees. Shareholders wishing to submit proposals for inclusion in the proxy statement relating to the 2013 Annual Meeting of Shareholders should follow the procedures specified under "Shareholder Proposals for 2013 Annual Meeting" below. Shareholders wishing to nominate directors should follow the procedures specified under "Director Nominations and Qualifications."

#### **Code of Ethics**

We have adopted a code of ethics applicable to our accounting and financial employees, including the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer or Controller, or persons performing similar functions, as well as a code of conduct applicable to all employees, officers and directors. These codes

are posted at the Corporate Governance link on the Investor Relations section of our website, located at [www.marketleader.com](http://www.marketleader.com). We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any amendment to or waiver from the application of the code of ethics with respect to the covered persons by posting such information on our website.

#### **PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR**

The Audit Committee has appointed KPMG LLP ( KPMG ) to be Market Leader s independent registered public accounting firm for the 2012 fiscal year. Representatives of KPMG are expected to be present at the Annual Meeting, with the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

KPMG has served as our independent registered public accounting firm since 2001. Shareholder approval of the selection of KPMG as our independent registered public accounting firm is not required by our bylaws or otherwise. If our shareholders fail to ratify the appointment, the Audit Committee will reconsider whether to retain KPMG but may elect to retain KPMG notwithstanding the shareholder vote. Even if the appointment is ratified by our shareholders, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be advisable.

**The Board of Directors recommends voting FOR ratification of the appointment of KPMG as the Company s independent registered public accounting firm for fiscal year 2012.**

#### **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table provides information regarding the beneficial ownership of our common stock as of March 30, 2012 (or such earlier date as indicated in the footnotes to the table) for: (a) each of our named executive officers included under the heading 2011 Summary Compensation Table below; (b) each of our directors; (c) our directors and executive officers as a group; and (d) each shareholder known by us to own more than 5% of our common stock.

Beneficial ownership is determined in accordance with rules of the SEC and includes shares over which the indicated beneficial owner exercises voting and/or investment power. Shares of common stock subject to options or warrants currently exercisable within 60 days of March 30, 2012 are considered outstanding for computing the percentage ownership of the person holding the options or warrants, but are not considered outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes to the table, we believe the beneficial owners of the common stock listed below, based on information furnished by them, have sole voting and investment power with respect to the shares listed opposite their names.

Name and Address of Beneficial Owner (1)	Shares of Common Stock Beneficially Owned	Percent of Class (2)
<b>Executive Officers and Directors</b>		
Jacqueline Davidson (3)	637,427	2.4%
Jon Gacek (4)	117,000	*
Michael Galgon (5)	195,000	*
Nicolas Hanauer (6)	1,603,672	6.3%
Frank ( Pete ) Higgins (7)	1,428,572	5.6%
Richard Mendenhall (4)	87,000	*
Ian Morris (8)	2,048,054	7.5%
All directors and executive officers as a group (7 persons) (9)	6,116,725	21.8%
<b>Other 5% or Greater Shareholders</b>		
Ariel Investments, LLC (10)		
200 E. Randolph Drive, Suite 2900		
Chicago, IL 60601		
	1,630,926	6.4%
Continental Partners, L.P.		
Continental Advisors LLC		
David P. Purcell (11)		
227 West Monroe Street, Suite 5050		
Chicago, IL 60606		
	1,677,274	6.6%
Financial & Investment Management Group, Ltd. (12)		
111 Cass Street		
Traverse City, MI 49684		
LMM, LLC		
	1,398,889	5.5%
Legg Mason Capital Management Opportunity Trust (13)		
100 International Drive		
Baltimore, MD 21202		
	4,756,390	18.6%

\* Less than one percent

- (1) Unless otherwise indicated, the business address of each of the shareholders named in this table is Market Leader, Inc., 11332 NE 122<sup>nd</sup> Way, Suite 200, Kirkland, WA98034.
- (2) Based on 25,575,723 shares outstanding as of March 30, 2012.
- (3) Includes 512,500 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 30, 2012.
- (4) Represents shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 30, 2012.
- (5) Includes 25,000 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 30, 2012.
- (6) Includes 67,000 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 30, 2012.
- (7) Includes 77,000 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 30, 2012.
- (8) Includes 1,611,908 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 30, 2012.
- (9) Includes 2,497,408 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 30, 2012.
- (10) This information and the information in this footnote is based solely on a Schedule 13G filed on February 14, 2012 by Ariel Investments, LLC ( Ariel ). According to the Schedule 13G, Ariel has sole voting power with respect to 468,894 shares and dispositive power with respect to 1,630,926 shares. Ariel is



a registered investment advisor, managing individual client accounts. All shares reported are held in accounts owned by the clients of Ariel. Because of this, Ariel disclaims beneficial ownership of the shares.

- (11) This information and the information in this footnote is based solely on Amendment No. 1 on Schedule 13G filed on February 14, 2012 by Continental Partners, L.P. ( Continental LP ), Continental Advisors LLC ( Continental LLC ) and David P. Purcell ( Purcell ). According to the Schedule 13G, Continental LP has shared voting and dispositive power with respect to 1,536,252 shares, while Continental LLC and Purcell have shared voting and dispositive power with respect to 1,677,274 shares. Purcell is the managing member of Continental LLC, an entity which serves as the general partner of Continental LP, an investment adviser.
- (12) This information and the information in this footnote is based solely on a Schedule 13G filed on February 7, 2012 by Financial & Investment Management Group, Ltd. ( FIMG ). According to the Schedule 13G, FIMG has shared voting power and dispositive power with respect to 1,398,889 shares. FIMG is a registered investment advisor, managing individual client accounts. All shares reported are held in accounts owned by the clients of FIMG. Because of this, FIMG disclaims beneficial ownership of the shares.
- (13) This information and the information in this footnote are based solely on Amendment No. 7 on Schedule 13G filed on February 14, 2012 by LMM LLC and Legg Mason Capital Management Opportunity Trust ( Legg Mason ), a portfolio of Legg Mason Investment Trust, Inc. According to the Schedule 13G, Legg Mason has shared voting power and dispositive power with respect to 4,149,107 shares, while LMM LLC has shared voting power and dispositive power with respect to 4,756,390 shares.

#### **TRANSACTIONS WITH RELATED PARTIES**

None.

#### **REVIEW, APPROVAL OR RATIFICATION OF TRANSACTIONS WITH RELATED PARTIES**

On an annual basis, each of our directors and executive officers must complete a Director and Officer Questionnaire that requires disclosure of any transaction, arrangement or relationship, or any current proposed transaction, arrangement or relationship, with Market Leader since the beginning of the last fiscal year in which the director or executive officer, or any member of his or her immediate family, had a direct or indirect material interest. Any transaction, arrangement or relationship disclosed in the Director and Officer Questionnaire submitted by a director or executive officer is reviewed and considered by the Board of Directors in making independence determinations with respect to directors and resolving any conflicts of interest that may be implicated.

Our directors and executive officers are expected to disclose to the Chairman of the Board or Chief Executive Officer the material facts of any transaction that could be considered a related person transaction promptly upon gaining knowledge of the transaction. Upon collection of the relevant information, the Chairman of the Board or the Chief Executive Officer presents the transaction to the Audit Committee for consideration. A related person transaction is generally defined as any transaction required to be disclosed under Item 404(d) of Regulation S-K, the SEC's related person transaction disclosure rule.

When determining whether to approve or ratify a related person transaction, the Audit Committee will review relevant facts regarding the related person transaction, including:

the extent of the related person's interest in the transaction;

whether the terms are comparable to those generally available in arms-length transactions; and

whether the related person transaction is consistent with the best interests of Market Leader.

If any related person transaction is not approved or ratified, the Audit Committee may take such action as it may deem necessary or desirable in the best interests of Market Leader and its shareholders.



## EXECUTIVE OFFICERS

The following persons are executive officers of Market Leader as of March 30, 2012 and will serve in the capacities noted until their successors are duly appointed or until their resignation or removal.

Name	Age	Position
Ian Morris	43	President, Chief Executive Officer and Director
Jacqueline Davidson	51	Chief Financial Officer

For a biographical summary of Mr. Morris, see Proposal 1 Election of Directors.

*Jacqueline L. Davidson* has served as our Chief Financial Officer since February 2008. Ms. Davidson served as our Vice President of Finance from November 2004 to January 2008 and served as our Chief Financial Officer on an interim basis from July 2006 to January 2007. From 1996 to 2004, Ms. Davidson served in a number of executive financial positions at public and private companies, including Penford Corporation and The Cobalt Group, Inc. Ms. Davidson is a CPA who began her career at PricewaterhouseCoopers LLP. She holds a B.A. in Business Administration from Washington State University.

## EXECUTIVE COMPENSATION

### 2011 Summary Compensation Table

The following table summarizes compensation earned by our Chief Executive Officer and our Chief Financial Officer for 2011 and 2010 (collectively, the named executive officers).

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards \$(1)	Non-Equity Incentive		Total (\$)
					Plan Compensation (\$)	All Other Compensation (\$)	
Ian Morris	2011	327,500		204,740	128,700	37,677(2)	698,617
President and Chief Executive Officer	2010	315,000	2,750	217,125	47,250	27,506(3)	609,631
Jacqueline Davidson	2011	222,660		118,787	65,813		407,260
Chief Financial Officer	2010	210,000	16,375	121,590	23,625		371,590

- Reflects aggregate grant date fair value for awards granted in the year indicated, computed in accordance with FASB ASC Topic 718 (disregarding any estimate of forfeitures related to service-based vesting conditions). See Note 12, under the heading *Stock Option Plans and Stock-Based Compensation* in the Notes to Consolidated Financial Statements set forth in our Annual Report on Form 10-K filed on March 19, 2012, for assumptions made in determining these amounts.
- Consists of (i) family medical and dental insurance premiums and additional life insurance premiums totaling \$5,893, (ii) a car allowance of \$9,000, (iii) club membership fees totaling \$2,818, (iv) tax/financial planning services in the amount of \$10,000 and (v) the reimbursement of the related tax on the benefits described in (i) through (iv) in the amount of \$9,966.
- All Other Compensation in 2010 consists of (i) family medical and dental insurance premiums and additional life insurance premiums totaling \$5,893, (ii) a car allowance of \$9,000, (iii) club membership fees totaling \$2,718, (iv) tax/financial planning services in the amount of \$2,620 and (v) the reimbursement of the related tax on the benefits described in (i) through (iv) in the amount of \$7,275.

### Employment Agreements

We have entered into employment agreements with our named executive officers, which in December 2008 were amended for purposes of compliance with Section 409A of the Internal Revenue Code of 1986, as amended. The descriptions of the employment agreements below and in *Effect of Termination of Employment or Change in Control* describe the employment agreements, as amended.

*Ian Morris Employment Agreement.* In May 2004, we entered into an employment agreement with our Chief Executive Officer, Ian Morris. Under the terms of the agreement, Mr. Morris is entitled to an annual base salary, with the ability to earn an annual bonus, as determined by the Compensation Committee. The agreement provides that Mr. Morris is an at-will employee. If Mr. Morris' employment is terminated without cause, or if he resigns for good reason, both as defined in the agreement and summarized below under Effect of Termination of Employment or Change in Control, he will be entitled to receive the following benefits: (i) termination payments equal to twelve months' annual base salary payable in 24 semi-monthly installments, (ii) any unpaid base salary for services previously performed as of the date of termination, (iii) a severance bonus equal to 100% of the most recent annual bonus paid to him, and (iv) payment of COBRA premiums until termination or expiration of eligibility for COBRA coverage. In addition, if Mr. Morris resigns for good reason, all unvested outstanding options to purchase shares of our common stock granted on or prior to the date of the agreement will become 100% vested and immediately exercisable. In the event that we terminate his employment without cause, all unvested options that would have been exercisable on the fourth quarterly vesting date following his termination will become vested and exercisable as of the date of termination. Market Leader carries a \$2.5 million life insurance policy on Mr. Morris that names his wife as the beneficiary. Additionally, in the event of Mr. Morris' death or disability, he and his eligible dependents will be entitled to payment of COBRA premiums for twelve months thereafter.

*Jacqueline Davidson Employment Agreement.* In February 2008, we entered into a new employment agreement with Ms. Davidson concurrent with her promotion to Chief Financial Officer. Under the terms of Ms. Davidson's employment agreement, we agreed to pay her an annual base salary, with the ability to earn an annual bonus. The agreement provides that Ms. Davidson is an at-will employee. If Ms. Davidson's employment is terminated without cause or if she resigns for good reason, both as summarized below under Effect of Termination of Employment or Change in Control, she will be entitled to receive the following benefits: (i) termination payments equal to six months' annual base salary and (ii) payments equal to six months of COBRA premiums, provided that she sign a separation agreement releasing any claims against Market Leader. In the event of Ms. Davidson's death or disability, she and her eligible dependents will be entitled to receive six months of COBRA premiums.

#### **Equity Compensation Plans**

Market Leader has two equity compensation plans under which our executive officers have been granted equity awards: the 1999 Stock Incentive Plan and the 2004 Equity Incentive Plan. We currently grant equity-based awards only under the 2004 Equity Incentive Plan.

Stock options are awarded with exercise prices equal to the average of the high and low trading prices of our common stock on the date of grant and typically vest over a four-year period, subject to continued employment. During 2011, no stock options were granted to the named executive officers.

Restricted stock units granted to executive officers vest over periods of up to four years, subject to continued employment through those vesting dates. During 2011, 17,500 restricted stock units were granted to Ms. Davidson and no restricted stock units were granted to Mr. Morris.

Stock appreciation rights are awarded with grant prices equal to the average of the high and low trading prices of our common stock on the date of grant and typically vest over a four-year period, subject to continued employment. The stock appreciation rights are net settled in cash or shares at the discretion of the Compensation Committee. During 2011, a stock appreciation right for 200,000 shares was granted to Mr. Morris and a stock appreciation right for 80,000 shares was granted to Ms. Davidson.

#### **Annual Incentive Bonuses**

On February 3, 2011, the Compensation Committee approved the Market Leader, Inc. 2011 Management Variable Cash Compensation Plan (the Bonus Plan), which provides for incentive payments to executive officers based upon achievement of specified quarterly revenue and gross margin goals. Incentive payments are

based on a percentage of base salary for each executive officer ranging from 45% to 100% of base salary, depending on the level of achievement of the goals. Mr. Morris' 2011 target bonus was equal to 60% of his base salary and Ms. Davidson's was equal to 45% of her base salary. If Market Leader's performance is between target and top-level target, bonus amounts may exceed the target percentages set forth above. The Compensation Committee assesses achievement of the stated goals under the Bonus Plan, determines and approves incentive payments for each executive officer and may modify incentive payment amounts or award vehicles and differentiate between executives in their discretion. Executives will not receive a bonus under the Bonus Plan if minimum performance targets are not met. For 2011, the revenue goal was achieved in two out of four quarters and the gross margin goal was achieved in four out of four quarters, resulting in payouts at 65% of target amounts. The amounts for Mr. Morris and Ms. Davidson are disclosed for 2011 under the Non-Equity Incentive Plan Compensation column of the 2011 Summary Compensation Table.

**2011 Outstanding Equity Awards at Fiscal Year-End Table**

The following table provides information about outstanding stock options, stock appreciation rights, and restricted stock units held by our named executive officers as of December 31, 2011.

Name	Grant Date	Option Awards				Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)
Ian Morris	6/27/2002	363,783		2.00	6/27/2012		
	6/25/2003	435,000		2.50	6/25/2013		
	5/13/2004	100,000		2.20	5/13/2014		
	8/30/2005	150,000		13.23	8/30/2015		
	12/19/2006	150,000		5.40	12/19/2016		
	7/28/2008	203,125(2)	46,875	2.85	7/28/2018		
	7/30/2009	135,000(2)	105,000	1.96	7/30/2019		
	9/23/2010	78,125(2)	171,875	2.01	9/23/2020		
	10/06/2011		200,000(5)	2.26	10/06/2016		
	Jacqueline Davidson	12/7/2004	25,000		8.50	12/7/2014	
8/30/2005		20,000		13.23	8/30/2015		
12/19/2006		80,000		5.40	12/19/2016		
2/19/2008		70,312(3)	4,688	2.94	2/19/2018		
7/28/2008		130,000(3)	30,000	2.85	7/28/2018		
7/30/2009		90,000(3)	70,000	1.96	7/30/2019		
9/23/2010		43,750(3)	96,250	2.01	9/23/2020		
9/15/2011			80,000(4)	2.21	9/15/2016	17,500(3)	48,125

- (1) The closing price of our common stock on December 30, 2011 was \$2.75 per share.
- (2) This option vests 6.25% at the end of each quarter following the grant date.
- (3) This stock option or restricted stock unit, as applicable, vests 25% on the first anniversary of the grant date and 6.25% at the end of each of the next twelve quarters.
- (4) This stock appreciation right vests 25% on the first anniversary of the grant date and 6.25% at the end of each of the next twelve quarters.
- (5) This stock appreciation right vests 6.25% at the end of each quarter following the grant date.

**Effect of Termination of Employment or Change in Control**

**Employment Agreements.** We have employment agreements with Mr. Morris and Ms. Davidson that include termination of employment provisions and change in control arrangements. As described in more detail



in the narrative after the 2011 Summary Compensation Table, under these agreements, Market Leader may be required to pay a compensation and benefits package if we terminate their employment other than for cause, as defined below, or if one of those executive officers terminates employment for good reason, as defined below. The compensation and benefits packages may include severance payments and payment of COBRA premiums, or the acceleration of stock option vesting.

Termination of employment benefits would not be paid if an executive officer was terminated for cause. The definition of cause generally includes the following:

Willful misconduct, insubordination, or dishonesty in the performance of the executive's duties or other knowing and material violation of company policies and procedures in effect from time to time which results in a material adverse effect on Market Leader;

Commission by the executive of acts involving an act of dishonesty, moral turpitude, deceit or fraud that resulted or could reasonably be expected to result in a felony conviction;

Current use by the executive of illegal substances that results in a criminal conviction and materially impairs Market Leader's business, goodwill or reputation; or

Any material violation by the executive of the executive's noncompetition agreement with Market Leader that results in a material adverse effect on Market Leader.

In the case of Mr. Morris' employment agreement, cause is also defined as the continued failure of the executive to satisfactorily perform his duties for a period of 60 consecutive days after receipt of written notice that specifically identifies the areas in which the executive's performance is deficient and the executive fails to cure such acts or omissions within 30 days after receipt of the written notice.

If an executive officer terminates his employment for good reason, he would be entitled to termination of employment benefits. Good reason is generally defined as:

a material reduction in the executive's duties, authority, or responsibility at Market Leader;

a material and involuntary reduction in the executive's base salary;

a material breach of the employment agreement by Market Leader; or

a material change in the geographic location at which the executive must perform services.

Termination of employment by the executive will not be deemed to be for good reason unless the executive provides notice to Market Leader of the good reason event or condition within 30 days of its occurrence and Market Leader has a 30-day opportunity after such notice to cure such conduct or event.

**Change in Control Provisions under the 2004 Equity Incentive Plan.** Unless the Compensation Committee provides otherwise at the time of grant of an award under the 2004 Equity Incentive Plan, in the event of certain company transactions, as defined below, each outstanding stock option, stock appreciation right, or restricted stock unit generally will automatically accelerate and become fully vested and exercisable or payable immediately before the company transaction, unless the award is assumed, continued or replaced with a comparable award by the successor entity or the parent of the successor entity. Any stock option, stock appreciation right, or restricted stock unit that is assumed, continued or replaced with a comparable award in the company transaction will retain its original vesting schedule. Notwithstanding the above, we may instead provide that awards will be terminated and exchanged for cash in connection with a company transaction, either to the extent then vested and exercisable or whether or not then vested and exercisable, as determined by the Compensation Committee in its sole discretion.

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Under the 2004 Equity Incentive Plan, a company transaction is generally defined as

A merger or consolidation with or into any other company or entity;

A statutory share exchange or sale in one transaction or a series of transactions of all or substantially all of our outstanding voting securities (excluding mergers or consolidations in which the holders of common stock immediately prior to the transaction hold at least a majority of the shares immediately thereafter); or

A sale of all or substantially all of our assets.

**Other Termination or Change in Control Arrangements.** Under the terms of the stock appreciation right granted to Mr. Morris in October 2011, if Mr. Morris' employment is terminated without cause or if he resigns for good reason (as such terms are defined in his employment agreement), the unvested portion of the stock appreciation right that would have been exercisable as of the fourth quarterly vesting date following termination will become vested and exercisable.

As of December 31, 2011, we also had a change in control arrangement in effect with Mr. Morris that provides for accelerated vesting of equity awards in addition to the standard acceleration provisions in the 2004 Equity Incentive Plan. Pursuant to these agreements, including that for the stock appreciation right granted to Mr. Morris in 2011, in the event of certain company transactions, as defined above, 50% of the unvested portion of the awards subject to these agreements will automatically become vested and exercisable, and the remaining portion of these awards will vest in equal quarterly increments over the shorter of (i) two years immediately following such company transaction or (ii) the amount of time remaining under the award's original vesting schedule.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES**

The aggregate fees for professional services rendered for fiscal years 2011 and 2010 by KPMG, our independent registered public accounting firm, were as follows:

	2011	2010
Audit-fees (1)	\$ 496,239	\$ 401,000
Audit-related fees (2)		
Tax fees (3)	12,737	3,852
All other fees		
<b>Total</b>	<b>\$ 508,976</b>	<b>\$ 404,852</b>

- (1) *Audit Fees.* Fees and expenses associated with professional services rendered by KPMG in connection with (i) the audit of our consolidated annual financial statements; (ii) reviews of our unaudited consolidated interim financial statements; and (iii) reviews of documents furnished or filed with the SEC.
- (2) *Audit-Related Fees.* Fees and expenses associated with due diligence related to acquisitions/divestitures, accounting consultations and procedures relating to various other audit and special reports.
- (3) *Tax Fees.* The aggregate fees billed by KPMG for professional services rendered for state business tax compliance, advice and planning. The Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm. The policy is designed to ensure that the provision of these services does not impair the auditor's independence. Under the policy, unless a type of service to be provided by the independent registered public accounting firm has received general pre-approval, it will require specific pre-approval by the Audit Committee. In addition, any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee. Under the policy, the Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated is required to report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate responsibilities to pre-approve services performed by the independent registered public accounting firm to management.

For 2011 and 2010, all audit and non-audit services were pre-approved by the Audit Committee.

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**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee of the Board of Directors is composed of three directors who are independent directors as defined under the rules of The Nasdaq Stock Market and the SEC. The Audit Committee operates under a written charter approved by the Board of Directors, a copy of which is available at the Corporate Governance link on the Investor Relations section of our website, [www.marketleader.com](http://www.marketleader.com).

**Responsibilities.** The primary function of the Audit Committee is to oversee the accounting and financial reporting processes of Market Leader and the audit of the financial statements of Market Leader. The responsibilities of the Audit Committee include, among others, appointing an independent registered public accounting firm as Market Leader's independent registered public accounting firm and considering, in consultation with the independent auditors, the audit scope and plan. The Audit Committee Charter describes in greater detail the responsibilities of the Audit Committee. Management is responsible for Market Leader's internal controls and financial reporting process. The independent auditors are responsible for performing an independent audit of Market Leader's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and for issuing a report thereon.

**Review with Management and Independent Auditors.** In this context, the Audit Committee has met and held discussions with management and the independent registered public accounting firm. The Audit Committee has reviewed and discussed with management and the independent registered public accounting firm Market Leader's audited consolidated financial statements as of and for the fiscal year ended December 31, 2011 and the independent registered public accounting firm's report thereon. Management represented to the Audit Committee that Market Leader's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, Communication with Audit Committees, as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee also received and reviewed the written disclosures and the letter from the independent auditors required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence, and has discussed with the independent auditors the independent auditor's independence.

**Summary.** Based on the reviews and discussions with management and the independent auditors referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements referred to above be included in Market Leader's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 for filing with the SEC.

In connection with its review of Market Leader's consolidated audited financial statements referred to above, the Audit Committee relied on advice and information that it received in its discussions with management and advice and information it received in the audit report of and discussions with the independent registered public accounting firm.

This report is submitted over the names of the members of the Audit Committee.

Jon W. Gacek, Chair

Nicolas J. Hanauer

Frank M. (Pete) Higgins

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers, directors and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and



changes in ownership with respect to our equity securities with the SEC. Based solely on our review of the copies of such forms that we received we believe that our officers, directors and greater than 10% beneficial owners complied with all filing requirements on a timely basis during 2011.

## SHAREHOLDER PROPOSALS FOR 2013 ANNUAL MEETING

### Submission of Shareholder Proposals for Inclusion in Proxy Statement

Under the SEC's proxy rules, shareholder proposals that meet certain conditions may be included in Market Leader's proxy statement and form of proxy for a particular Annual Meeting of Shareholders. Shareholders who intend to have a proposal considered for inclusion in our proxy materials for the 2013 Annual Meeting of Shareholders must submit the proposal at our principal executive offices no later than December 21, 2012.

### Advance Notice Procedures for Director Nominations and Other Business at Annual Meeting of Shareholders

Shareholders who intend to nominate persons for election to the Board of Directors or to present a proposal at the 2013 Annual Meeting of Shareholders without inclusion of the proposal in our proxy materials must provide advance written notice of such nomination or proposal in the manner required by our Bylaws. Notice of nominations or other business proposed to be considered by shareholders at the Annual Meeting of Shareholders, complying with Sections 2.6.1 and 3.3.1 of the Bylaws, as applicable, must be delivered to the Corporate Secretary no earlier than February 25, 2013 and no later than March 25, 2013. Notices should be sent to: Market Leader, Inc., Attn: Corporate Secretary, 11332 NE 122nd Way, Suite 200, Kirkland, WA98034. For additional information regarding director nomination procedures, see Board of Directors and Corporate Governance Director Nominations and Qualifications above.

For proposals that are timely filed, Market Leader retains discretion to vote proxies it receives provided that (1) Market Leader includes in its proxy statement advice on the nature of the proposal and how it intends to exercise its voting discretion and (2) the proponent does not issue a proxy statement.

## OTHER BUSINESS

The Board of Directors does not intend to present any business at the Annual Meeting other than as described in the accompanying Notice of Annual Meeting of Shareholders, and has no present knowledge that others intend to present business at the Annual Meeting. If, however, other matters requiring the vote of the shareholders properly come before the Annual Meeting, the persons named in the accompanying form of proxy intend to exercise their discretionary authority to vote the proxies held by them in accordance with their best judgment as to such matters.

## ANNUAL REPORT AND FINANCIAL STATEMENTS

**A copy of the Market Leader 2011 Annual Report to Shareholders, which includes the Market Leader Annual Report on Form 10-K for the fiscal year ended December 31, 2011, accompanies this Proxy Statement. Additional copies may be obtained, without charge, upon request to Market Leader, Inc., Attn: Investor Relations at 11332 NE 122<sup>nd</sup> Way, Suite 200, Kirkland, WA98034.**

By Order of the Board of Directors,

Ian Morris  
*President and Chief Executive Officer*  
April 16, 2012







