LoopNet, Inc.
Form 10-K
February 27, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

o **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: 000-52026
LOOPNET, INC.
(Exact name of registrant as specified in its charter)

Delaware	**77-0463987**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

185 Berry Street, Suite 4000
San Francisco, CA 94107
(Address of principal executive offices)

(415) 243-4200
(Registrant s telephone number, including area code)

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

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

Title of Class	Name of Each Exchange on Which Registered
Common Stock	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 þ No o

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

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. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $335,847,436 as of the last business day of the registrant s most recently completed second fiscal quarter, based upon the closing sale price on the Nasdaq Global Select Market reported for such date.

There were 34,380,553 shares of the registrant s common stock issued and outstanding as of February 19, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors), 11, 12, 13 and 14 of Part III incorporate by reference information from the Registrant s Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Registrant s 2009 Annual Meeting of Stockholders.

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Statement regarding forward-looking statements

This report includes forward-looking statements. All statements other than statements of historical facts contained in this report, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words believe, may, will, should, could, estimate, continue, anticipate, intend, expect, plan, potential, predict and similar expressions, as they re intended to identify forward-looking statements. Forward-looking statements contained in this report include, but are not limited to, statements relating to:

- our future financial results;
- our future growth and offering of new products or services;
- our future advertising and marketing activities;
- our future investment in technology; and
- trends in the commercial real estate market and the general economy.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Risk Factors in Item 1A of Part I. No forward-looking statement is a guarantee of future performance and you should not place undue reliance on any forward-looking statement.

In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Except as otherwise required by law, we undertake no obligation to update or revise any forward-looking statement contained in this report.

LoopNet, BizBuySell, LoopLink, Cityfeet, and LandAndFarm are our registered trademarks in the United States also use the marks RecentSales and ProspectList. This annual report on Form 10-K also includes trademarks, trade names and service marks of other companies. Use or display by us of other parties trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, these other parties.

Internet Site

Our Internet address is www.loopnet.com. We make publicly available free of charge on our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Information contained on our website is not a part of this annual report on Form 10-K.

Where You Can Find Additional Information

You may review a copy of this annual report on Form 10-K, including exhibits and any schedule filed therewith, and obtain copies of such materials at prescribed rates, at the Securities and Exchange Commission s Public Reference Room in Room 1580, 100 F Street, NE, Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants, such as LoopNet, that file electronically with the Securities and Exchange Commission.

PART I

Item 1. *Business.*

LoopNet, Inc. (the Company or LoopNet) was incorporated under the laws of the state of California on June 2, 1997, and was reincorporated as a Delaware corporation in May, 2006.

We believe we are the leading online marketplace for commercial real estate in the United States, based on the number of monthly unique visitors to our marketplace, which averaged approximately 800,000 unique users per month during 2006, approximately 900,000 during 2007 and 2008, as reported by comScore Media Metrix. comScore Media Metrix defines a unique visitor as an individual who visited any content of a website, a category, a channel, or an application. Our online marketplace, available at *www.LoopNet.com* , enables commercial real estate agents, working on behalf of property owners and landlords, to list properties for sale or for lease and submit detailed information on property listings including qualitative descriptions, financial and tenant information, photographs and key property characteristics, in order to find a buyer or tenant. Commercial real estate agents, buyers and tenants use the LoopNet online marketplace to search for available property listings that meet their commercial real estate criteria. By connecting the sources of commercial real estate supply and demand in an efficient manner, we believe that our online marketplace enables commercial real estate participants to initiate and complete more transactions more cost-effectively than through other means. As of December 31, 2008, the LoopNet online marketplace contained approximately 652,000 listings.

To use much of the LoopNet online marketplace, users must register and become registered members. Registration requires that a user create a user record, which includes basic contact information such as name and a working email address, and also requires that a user accepts our Terms of Service. Basic membership is available free-of-charge, and enables members to experience some of the benefits of the LoopNet offering, with limited functionality. LoopNet premium membership is available for a monthly subscription fee and provides enhanced marketing exposure for property listings and full access to search LoopNet property listings, as well as numerous other features. The minimum term of a premium membership subscription is one month, with discounts available for quarterly or annual subscriptions. A customer choosing to cancel a discounted quarterly or annual subscription will receive a refund based on the number of months remaining on the subscription, but may be subject to an adjustment according to the monthly rate rather than the discounted rate. As of December 31, 2008, we had more than 3.2 million registered members and more than 77,000 premium members.

In addition to our LoopNet marketplace, we also operate BizBuySell, an online marketplace for operating businesses for sale, which we acquired in October, 2004. As of December 31, 2008, BizBuySell contained over 49,000 listings of operating businesses for sale.

We also generate revenues by selling our LoopLink online real estate marketing and database services suite to commercial real estate firms and by selling advertising and sponsorships on our website to parties who are seeking to market products or services to the LoopNet registered member base. Additionally, through our RecentSales product, members can access historical sale transaction information on a monthly subscription or per property transaction record basis. Additional information regarding our primary sources of revenue and our business segment are included in Note 1 to our consolidated financial statements. Additional information regarding our business seasonality is included in Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations.*

Industry Background

The commercial real estate industry encompasses real estate asset types such as office, industrial, retail, multi-family, hotel, storage and land for development. According to Pramerica Real Estate Investors, the aggregate value of commercial real estate in the United States was approximately $5 trillion in 2003.

Much like the residential real estate industry, the commercial real estate industry relies primarily on brokers and agents who facilitate sales and leasing transactions for a commission. According to CB Richard Ellis, the commercial real estate services industry in the United States generated approximately $23 billion in services revenue in 2004. This brokerage system is highly fragmented and, according to CB Richard Ellis, the top five

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commercial real estate brokerage firms accounted for less than 15% of the revenue generated by the commercial real estate services industry in 2004.

In most cases, commercial real estate agents associated with both small and large brokerage firms operate as independent contractors, make decisions for property marketing strategies, and seek cost-effective means to market their property listings. We believe that the majority of transactions in the industry are small and are consummated by local independent brokers.

According to the Association of Real Estate License Law Officials, there are over 2.6 million licensed real estate professionals in the United States, including commercial and residential real estate agents.

In addition to the brokerage community, industry participants include tenants, owners, property investors and business operators, all of which are actively involved in commercial real estate transactions. Commercial office, industrial, and retail properties are often occupied by operating businesses, which are generally either rent-paying tenants or owners of those properties. According to the Small Business Administration, in 2002 there were approximately 5.7 million operating businesses classified as employers and there were another 17.6 million operating businesses which were classified as non-employers, such as small family-owned and -operated businesses. We also believe that there are a large number of private investors who actively participate in commercial real estate transactions.

The traditional processes for marketing and searching for commercial real estate are inefficient. Traditionally, agents working on behalf of commercial real estate sellers and landlords market their property listings through methods such as word of mouth in the brokerage community, signage placed directly on buildings for sale or with space for lease, availability lists that are printed and shared among brokerage firms, advertisements placed in print media including newspapers and other publications, direct mail campaigns and emails sent to private distribution lists.

Similarly, the process of searching for properties available for sale or for lease has been inefficient. Unlike the residential real estate industry, which is served by local multiple listing services or other central local databases of residential real properties available for sale, there has not been an equivalent listing service in the commercial real estate or operating business for sale industries. As a result, compiling a comprehensive and reliable collection of current for sale or for lease property listings has been a slow and expensive process for individual commercial real estate participants, requiring significant resources and often resulting in inaccurate and incomplete information.

The LoopNet Model

We provide an online marketplace that efficiently connects commercial real estate supply and demand. Our marketplace enables agents working on behalf of commercial real estate owners and landlords to list properties for sale or for lease. We provide tools that allow property listers to proactively contact potential buyers and tenants seeking specific types of properties. Similarly, we enable commercial real estate agents, buyers and tenants to search for available property listings that meet their criteria, such as price range, location, building size and property type. Individuals that search for and find properties that meet their requirements on our marketplace are able to contact and connect with the listing party and initiate a commercial real estate transaction such as a property purchase or lease. We offer property searchers access to a large number of available property listings that would be difficult and costly to compile through traditional means. We also enable property listers to cost-effectively reach a large number of buyers and tenants. We believe that the LoopNet online marketplace enables our members to initiate and complete more commercial real estate transactions more cost-effectively than through other means.

The key attributes of our business model include:

Leading commercial real estate online marketplace. We believe we have aggregated a critical mass of commercial real estate agents, property owners, landlords, buyers, tenants and for sale or for lease property listings. As a result, we believe that we are the leading online commercial real estate marketplace. As of December 31, 2008, we had more than 3.2 million registered members and more than 77,000 premium members. For the year ended December 31, 2008, our registered members viewed property profiles on our website approximately 169 million times. We believe that this critical mass of commercial real estate industry participants and properties listed for sale or for lease creates a cycle that helps us to continue to grow our

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member base and expand our online marketplace. Commercial real estate agents, property owners and landlords are attracted to LoopNet as a result of the large number of potential buyers and tenants, who in turn are attracted to our marketplace by the broad selection of properties listed on our marketplace.

Comprehensive member-generated content offering. The majority of our property listings are submitted by our members through our website, using our online tools. We enable members to provide detailed content on a property listing including description, financial and tenant information, photographs and key property characteristics. We automatically compile this content into an interactive property profile that is available to our members when they search for properties on our website. We believe that the content provided in our property profiles is more comprehensive, up-to-date and useful than the information provided in traditional commercial real estate property listings, such as newspaper and magazine ads or property signs. In addition, we believe that using member-generated property listings has allowed us to grow our online marketplace more efficiently and cost-effectively than if we had compiled the listings on our own.

Compelling member experience. Our marketplace is accessible at any time and we believe it is an intuitive, easy-to-use online service. Upon registering as a member, an owner or agent working for the owner can list properties on the service, and buyers and tenants can search for property listings quickly and easily. Properties are searchable immediately upon listing by our members. Basic members can list and search the properties for free. Our members can sign up to receive an email with updated listings that meet their criteria on a daily or weekly basis. We also offer several online tools that facilitate the communication between parties who are seeking to make a commercial real estate transaction. For example, a premium member that has listed a property can use our ProspectList feature to email other members who have searched for similar properties on our website. Members searching for properties are able to use our MyLoopNet feature to store multiple property profiles online to better organize their search process and find the property that is right for them. To assist members further, we offer member support via email and phone.

In addition to our LoopNet marketplace, we provide BizBuySell, an online marketplace that enables business owners, sellers and brokers to list and search for operating businesses for sale. We believe that the operating business market is complementary in several ways to the commercial real estate market. In many cases, owners or brokers who are seeking to sell a business are also selling the commercial real estate associated with the business, and business owners are active participants in the commercial real estate market as both buyers and tenants. In addition, many commercial real estate agents also function as business brokers. We believe that BizBuySell benefits operating business owners, sellers and brokers by providing an efficient online marketplace to connect and initiate transactions.

The LoopNet Advantage

We developed our marketplace to address the needs of commercial real estate agents and the property owners, landlords, buyers and tenants they represent.

Benefits to Property Listers

Broad marketing exposure. Our online marketplace offers commercial real estate agents and the owners and landlords they represent an efficient way to market properties available for sale or for lease. Properties listed on our website gain exposure to our large audience of members who are interested in commercial real estate opportunities. The size and geographic breadth of our marketplace and member base enables property listers to realize marketing benefits for listings on both a local and national level. We believe that the marketing exposure provided by a property listing on our marketplace is superior to traditional commercial real estate marketing methods, such as newspapers ads and newsletters, and enables our members to complete more sale and lease transactions in a more efficient manner.

Cost-effective and measurable marketing method. We believe that the LoopNet online marketplace is more cost effective and accountable than traditional methods for marketing commercial real estate properties. Premium members are able to use our reporting tools to track and monitor the marketing exposure of their property listings and receive a marketing statistics email that indicates the number of times a property profile has been viewed. We believe that the low cost of a monthly premium membership and the features and measurability of our product offering is superior to commercial real estate marketing alternatives.

Detailed and up-to-date property listing information. Our marketplace allows our members to provide significantly more information on a real-time basis than they typically can provide using traditional commercial real estate marketing methods. For example, when submitting a property listing, a member may choose to include files containing detailed financial spreadsheets, descriptive brochures or hyperlinks to other information. We offer a set of online tools and services that facilitate the submission and verification of commercial real estate property listing information, and we provide additional information relating to the property such as detailed location and demographic data and aerial and satellite imagery. In addition, our online marketplace enables members to update their property listings. These updates are immediately available on our marketplace, ensuring that the property listings provide the most comprehensive and timely information.

Benefits to Property Searchers

Access to a large number of property listings. Our online marketplace contained approximately 652,000 property listings as of December 31, 2008, primarily from the United States and Canada. The listings in our marketplace include all major asset types, such as office, industrial, retail, land and multi-family properties of all sizes. We believe that the depth and breadth of our property listings make our online marketplace valuable to commercial real estate agents as well as property buyers and tenants.

Real-time, comprehensive information. Our online marketplace provides access to comprehensive content on commercial real estate properties available for sale or for lease. Our online property listings provide more information than is available through traditional methods such as print or fax. We are able to provide immediate updates on revised and new property listings on our website to our members. We also provide premium members with daily email alerts with new property listings that meet their specified criteria. In addition, through our RecentSales product, members can access historical sale transaction information from the LoopNet marketplace and third-party information service providers to inform their analysis and decision process.

Customized search engine. We have designed our online marketplace to be easy to use and navigate. Commercial real estate agents, buyers and tenants use our proprietary commercial real estate search engine to quickly find properties in our marketplace that meet their criteria. Members can search based on a number of commercial real estate industry-specific variables including property type and sub-type, location, size, price range and key word. We believe that offering a customized search engine makes our website easier to use for our members and allows them to derive more value from our online marketplace.

Our Strategy

Our objective is to enhance our position as the leading online marketplace for commercial real estate, operating businesses for sale, and related markets. To achieve this objective, we are pursuing the following strategy:

Expand our base of registered members. We believe that growing our base of registered members increases the value of our online marketplace to the sources of both supply and demand for the commercial real estate market. More property listings attract more individuals searching for properties, which in turn attracts more individuals seeking to list properties, making the LoopNet marketplace more valuable for all of our members. We intend to continue to grow our member base through focused marketing efforts to increase awareness of our online marketplace. We acquire new members through word-of-mouth referrals, online and traditional marketing and direct marketing campaigns. In addition, we plan to promote increased usage of the LoopNet online marketplace by facilitating more property listings and searches by existing members. As part of our efforts to increase our base of registered members, we offer free basic membership with limited functionality.

Derive revenue from premium members. We derive revenues primarily from premium memberships, so it is critical to our future growth that we convert basic members into premium members and grow our revenue per premium member. We intend to grow our premium member base by increasing the number of basic members and then highlighting to them the value and benefits of premium membership. We intend to grow our

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revenue per premium member by continuing to increase the value of the services we provide to our premium members, and to increase the fees paid by our premium members as we increase the value of the services provided. We promote the premium offering to our basic members throughout our website, including at initial registration and when they list and search for properties. We also plan on continuing to engage in targeted direct marketing to convert basic members into premium members.

Offer complementary products and services. Our online marketplace produces a significant amount of information on commercial real estate transactions and property listings. We intend to use the information provided by our online marketplace and from third-party sources to identify additional, complementary products and services that we could in the future offer to help commercial real estate transaction participants research and make property decisions. For example, in 2006, we launched our RecentSales product, an online service that provides sale transaction information based upon data collected from transactions initiated through our website and from third-party information providers. We intend to continue offering commercial real estate transaction participants complementary information services to improve their analysis, decision and marketing processes.

Enhance the functionality of our marketplace. We intend to continue to invest in improving our marketplace. For example, in 2006, we added our MapSearch feature that allows our members to use a dynamic aerial and satellite map interface to search for and view property listings, which we believe improves the property search and marketing process. We will continue to enhance our product offering to grow our base of premium members and to increase the value of our online marketplace to our members.

Expand into new markets. We believe that there are opportunities to expand into new markets, although we have no current plans to do so. We expanded into the operating business for sale market through our acquisition of BizBuySell, an online marketplace for operating businesses for sale, in October, 2004. We intend to identify and pursue appropriate opportunities in other markets that are related to the commercial real estate industry where we can apply our expertise in developing online marketplaces. We may also pursue similar opportunities outside the United States. We would consider expanding through either acquisitions or internal investments depending on opportunities and circumstances.

Increase opportunities to advertise to our member base. We intend to increase the advertising opportunities available to parties who are seeking to market products and services to our member base. We believe that our large base of members is attractive to companies marketing to the commercial real estate industry. For example, a commercial real estate lender may want to market a real estate loan program to an individual who is purchasing a property. We plan on making additional sponsorship and lead generation advertising opportunities available to parties who are interested in marketing to our member base.

Products and Services

Our products and services facilitate the sale and lease of commercial real estate by enabling industry participants to list and find properties on our online marketplace and to contact and transact with one another. Through our online marketplace, commercial real estate agents working on behalf of sellers and landlords can list their properties for sale or for lease along with detailed qualitative descriptions, quantitative specifications, photographs and diagrams. Buyers and tenants of commercial real estate and their agents can perform highly targeted searches and review the property listings on our online marketplace. By addressing the needs of commercial real estate industry participants, we believe that we have built the leading online commercial real estate marketplace.

Our customers access the LoopNet and BizBuySell online marketplaces through the following product and service offerings:

Basic and premium membership. We offer two types of memberships on the LoopNet marketplace. Basic membership is available free-of-charge to anyone who registers at our website, and enables members to experience some of the benefits of the LoopNet offering, with limited functionality. LoopNet premium membership is available for a monthly subscription fee and provides enhanced marketing exposure for property listings and full access to LoopNet property listings, as well as numerous other features. Our fee for

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our LoopNet premium membership averaged $65.64 per month during the fourth quarter of 2008. The minimum term of a premium membership subscription is one month. We also offer quarterly and annual subscriptions which are priced and discounted accordingly, and paid in advance for the subscription period. A customer choosing to cancel a discounted quarterly or annual subscription will receive a refund based on the number of months remaining on the subscription, but may be subject to an adjustment according to the monthly rate rather than the discounted rate. Premium membership provides members with maximum marketing exposure for property listings and full access to LoopNet property listings, as well as numerous other features provided on our marketplace. We believe that the benefits provided by a premium membership enable premium members to initiate and complete more commercial real estate transactions. The following table illustrates some of the key features of basic and premium membership:

	Basic Membership	Premium Membership
Listing Benefits		
Detailed Property Listings	ü	ü
MyLoopNet Listing Management Center	ü	ü
Enhanced Listing Exposure		ü
ProspectList Lead Generation		ü
Marketing Exposure Statistics		ü
Controlled Access Marketing		ü
Searching Benefits		
Listings Search Engine	ü	ü
MyLoopNet Searching Management Center	ü	ü
Enhanced Listings Access		ü
PropertyAlert Email Alerts of New Listings	Weekly	Daily
Reporting and Map-Based Presentations		ü
MapSearch	ü	ü

Property listing. Our property listing service allows customers to quickly and easily submit listings on properties available for sale or for lease, enabling them to reach a large audience of commercial real estate transaction participants. All listings submitted to the LoopNet online marketplace are processed through a listing quality assessment mechanism. Members can submit an unlimited number of listings and include detailed property listing information, including building description, financial and tenant information, photographs and key property characteristics. Our service automatically compiles this information into a professional-quality online brochure.

MyLoopNet. Members can use MyLoopNet to manage various features of their LoopNet membership, including managing their listings and tracking the exposure their property profiles have received.

Enhanced Listing Exposure. Property listings submitted by basic members can only be viewed by premium members. Property listings submitted by premium members are available for viewing by all registered members and have premium placement on search results.

ProspectList. Premium members have exclusive access to ProspectList, a reverse lookup search function that enables property listers to market listings to specific agents, buyers and tenants who have posted their property purchase or lease criteria on LoopNet and requested that they be contacted with property listings that match those criteria.

Marketing Exposure Statistics. Premium members have access in MyLoopNet to various statistics on the number of exposures being generated for their listings on LoopNet.

Controlled Access Marketing. Premium members can use Controlled Access Marketing to password-protect their listings. For example, a premium member might choose to limit access to a property listing such that searchers can only access the listing details after agreeing to a confidentiality agreement with the listing agent.

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Property searching. We developed our property search engine specifically for the commercial real estate market. Members use our proprietary search engine to identify properties available for sale or for lease on our online marketplace that meet their criteria. Members can search for properties based on a broad scope of commercial real estate specifications, including property type and sub-type, location, building and lot size, and price range. Members can also search using map-based geographic searching combined with various property listing attributes, including a keyword search capability.

MyLoopNet. Members can use MyLoopNet to manage various features of their LoopNet membership, including saving links to multiple property profiles and detailed search parameters for future use. Members can also use MyLoopNet to specify the criteria for PropertyAlert emails.

Enhanced Listings Access. Basic members are able to view summary details of their search results but can only view property profiles submitted by premium members. Premium members have full access to all property listings and profiles.

PropertyAlert. Members can use PropertyAlert to receive email alerts with new property listings that meet their selection criteria. Premium members receive email alerts daily, while basic members receive email alerts weekly.

Reporting and Map-Based Presentations. Premium members can automatically generate professional-quality reports and maps of properties they have selected to use for presentations to clients and interested parties.

MapSearch. Members have access to MapSearch, an interactive and dynamic aerial and satellite image map interface for property searches.

LoopLink. LoopLink is an online real estate marketing and database services suite that enables commercial real estate firms to showcase their available properties both on the LoopNet marketplace and on the brokerage firm s own website using our hosted search software. Within LoopNet, each LoopLink listing is branded with the client s logo and is hyperlinked to the client s website. Additionally, the LoopLink service provides customizable, branded property search and results screens that can be integrated into the client s website. The LoopNet import service offers the opportunity to simplify the process of submitting listings to LoopNet from the client s internal databases, and features advanced data matching and data integrity rules and file conversion capabilities. We charge a monthly subscription fee to commercial real estate firms for the LoopLink service. Key features of LoopLink include comprehensive reporting and listing administration tools, a searchable and seamlessly integrated professional directory, property mapping for geographic and feasibility analysis, thumbnail photos and expanded property descriptions in search results.

RecentSales. RecentSales is a comprehensive nationwide database of recent commercial real estate transactions collected from sales initiated through our online marketplace and from third party information providers. Our RecentSales service enables property searchers to review precedent sales data to inform commercial real estate valuation analysis based on asset type, asking and sale price, sale date, property address and size. RecentSales is available for a monthly subscription or on a per-property-record basis.

Advertising and lead generation. Our large base of registered members represents an attractive marketing opportunity for parties who are in sectors related to the commercial real estate industry. We provide advertising and lead generation services which can be used, for example, to generate enhanced marketing exposure for a property listed for sale or for lease, general branding exposure for a particular party or service provider, or sales leads for specific service providers such as commercial mortgage lenders. Advertisers using our services pay fees based on 1) the number of ad impressions, 2) the number of clickthroughs for an ad, or 3) the leads that we provide to them from an ad. The market for our advertising products is comprised of any party wishing to advertise services to our community of registered members who are participating in commercial real estate and operating business for sale transactions.

BizBuySell. Similar to LoopNet, BizBuySell is an online marketplace for operating businesses for sale. Business sellers pay a fee of $59.95 to $99.95 per listing per month to list their operating businesses for sale, and interested buyers can search our listings for free. BizBuySell also offers BrokerWorks, a membership service available to business brokers, enabling them to list businesses for sale. BrokerWorks members are listed in BizBuySell s Business Broker Directory and receive access to our online prospect management tools. BrokerWorks is available for a one-time account setup fee of $24.95 and a monthly subscription fee of $49.95.

Our BizBuySell service also offers the option of paid access to pricing reports that provide a comparative analysis of recently sold businesses and businesses currently available for sale.

REApplications. REApplications (REApps) provides a comprehensive integrated suite of commercial brokerage automation software. REApps products are focused exclusively on serving the needs of the commercial real estate sector and are web-based, available on-demand on a hosted basis, eliminating the need to install software. The REApps product suite includes core functions for managing market research including property inventory, listings & comparables, commission management, customer relationship management (CRM), project tracking and transaction management.

Sales and Marketing

The main objectives of our sales and marketing department are to increase our base of LoopNet registered members, to build awareness among our members for our suite of products and services and to convert basic members to premium members. In addition, some of our sales professionals focus on a specific product, such as our LoopLink service. We also have a team dedicated to selling our advertising products.

Our marketing team is responsible for generating new registered members. Our primary source of new registered members is word-of-mouth referrals. We use direct marketing and online and traditional advertising to market to potential members. Our direct marketing program includes direct mail, email and outbound telesales campaigns that are designed to deliver targeted messages to prospective members about our products and services. Our online advertising consists primarily of paid search marketing. We also sponsor and attend local industry association events, and participate in industry trade shows and conferences to engage with existing LoopNet members, identify potential new members and build brand awareness with key member constituents such as commercial real estate agents or property investors.

Our sales team is responsible for identifying and qualifying new customer prospects, including premium members and commercial real estate brokerage firms, responding to inbound sales inquires, selling our products and services, identifying cross-selling and education opportunities, and assisting with product training. In addition, our sales team is responsible for building internal and external awareness related to new product offerings.

Our sales team is also responsible for converting our basic members to premium members. We believe that encouraging basic members to use our products and services is a highly effective way to promote premium membership. We also communicate the value of our products and services to our basic members through targeted direct marketing including permission-based email and telemarketing.

Our customer and account services staff is responsible for ensuring customer satisfaction by providing high quality and tailored customer support. We solicit feedback from our customers to assess and understand market trends, provide training and demonstrations, build awareness for our products and identify new product opportunities. We believe that providing a high level of customer service is an important element of our member retention program.

Competition

Our market is competitive and fragmented. Although there is no one firm that competes with us in all of our service and product areas, we do face competition from separate sources with respect to our different product offerings.

Because there is no comprehensive national commercial real estate listing service, the primary alternatives to our services are the traditional practices used by the commercial real estate industry. These include print brochures created by listing agents that are mailed and distributed by hand; current availabilities lists printed and shared among brokerage firms; signage on properties; email brochures distributed to private distribution lists; word of mouth in the brokerage community; and newspaper advertisements. We believe that these practices do not create an efficient mechanism to market, search or compare property listings locally or nationally.

We compete with CoStar, a provider of information and research services to the commercial real estate market. Some of the services that CoStar offers directly compete with our product offerings. For example, CoStar provides commercial real estate for sale and for lease property listings which compete directly with our online commercial real estate marketplace.

Several companies, such as Property Line International, have created online property listing services that compete with us. These companies aggregate property listings obtained through various sources, including from commercial real estate agents. In addition, newspapers include on their websites listings of commercial real estate for sale and for lease.

In the past, the National Association of REALTORS ® or NAR, its local boards of REALTORS ®, various affiliates, and other third parties have created commercial real estate information and listing services. These services could provide commercial real estate for sale and for lease property listings, and transaction comparables, which compete directly with our online commercial real estate marketplace services.

Companies such as eBay and craigslist, inc. provide commercial real estate listing or advertising services in addition to a wide variety of other products or services. eBay and craigslist operate real estate listing services which include commercial real estate and operating businesses. Other large Internet companies, such as Google, Yahoo! and Microsoft, have classified listing services which could be used to market and search for commercial real estate property listings.

Technology and Infrastructure

We have developed proprietary software that facilitates the listing and searching of commercial properties and businesses for sale or for lease on our marketplaces. The LoopNet marketplace is built primarily on Microsoft technology, utilizing the Microsoft.Net framework and Microsoft SQL Server. The system has been specifically built to provide capacity scaling through the addition of server and network hardware without making software changes. The system is secure, and important components have redundancy. Tape backups are performed daily and the tapes are rotated to a secure, offsite facility. Static website content is cached at locations across the United States to maximize website speed throughout the country.

Our primary website is hosted in a co-location facility in Los Angeles, California. A secondary, backup facility is maintained in a co-location facility in San Francisco, California. The backup system provides complete client functionality and business critical internal functionality with capacity to operate the business in the event of a catastrophic event affecting the Los Angeles facility. Listing data updates are sent to the backup system on a regular basis to minimize data loss in the event of a primary site failure. Both facilities are earthquake-resistant and have physical access security, environmental controls, and internal power generation capabilities.

BizBuySell s business listing system is built on Unix technology utilizing RedHat Enterprise Linux, Apache web service, Microsoft.Net, and MySQL database manager. The system is hosted in a co-location facility in Virginia. The facility provides tape backups and provides backup site services in the event of a primary facility failure.

As part of our normal business operations, we collect and utilize personal information. The use of all personal information is governed by our Terms and Conditions, which are posted on the website. Additionally, the use of personal information is reviewed and certified annually by TRUSTe.

We take steps to protect the personal information we collect and use. All personal information collected is stored in our databases. Access to this information by internal users is protected and controlled by network passwords. Our company has clear policies and procedures that our employees must follow to protect against compromising the security of the personal information we collect and maintain, and we communicate those policies and procedures regularly to our employees. Additionally, access to our network, and consequently to the databases, is protected by an industry standard firewall. External access to the network is tested monthly by a third-party security consultant (AmbironTrustWave) for vulnerabilities. All database servers and related equipment are maintained in physically secured environments with access limited to operations personnel only. Data backups are also maintained in a physically secured offsite location with controlled access.

An additional level of protection is implemented for financially sensitive personal information. Information such as credit card numbers are stored on our databases in an encrypted format. This encryption is intended to ensure that anyone gaining access to our servers will still be unable to obtain sensitive information. In the first quarter of 2008, we discovered that certain of our servers with respect to credit card and other personally identifiable information at our subsidiary Cityfeet may have been compromised. This potential breach has not affected any personally identifiable information with respect to LoopNet members which information is maintained on separate servers. We will continue to review and enhance our databases to prevent such unauthorized and unlawful intrusions.

Our technology and product development expenses were $4.3 million, $6.4 million, and $9.1 million in 2006, 2007, and 2008, respectively.

Intellectual Property

We rely on a combination of trademark, copyright and trade secret laws in the United States as well as contractual provisions to protect our proprietary technology and our brand. We currently have trademarks registered or pending in the United States for our name and certain words and phrases that we use in our business. We also rely on copyright laws to protect computer programs relating to our websites and our proprietary technologies, although to date we have not registered for copyright protection. We have registered numerous Internet domain names related to our business in order to protect our proprietary interests. We also enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties, and we actively monitor access to our proprietary technology.

Protecting our intellectual property rights could be costly and time-consuming. From time to time, we may encounter disputes over rights and obligations concerning our intellectual property. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business, our brand and reputation, and our ability to compete.

Employees

As of December 31, 2008, we had 305 employees. None of our employees are covered by a collective bargaining agreement. We have never experienced employment-related work stoppages and we consider our employee relations to be good.

Executive Officers

The following table sets forth information about our executive officers as of February 27, 2009.

Name	Age	Position
Richard J. Boyle, Jr.	43	Chief Executive Officer and Chairman of the Board of Directors
Thomas Byrne	42	President and Chief Operating Officer
Brent Stumme	46	Chief Financial Officer and Senior Vice President, Finance and Administration
Jason Greenman	41	Chief Strategy Officer and Senior Vice President, Corporate Development

Wayne Warthen	45	Chief Technology Officer and Senior Vice President, Information Technology

Richard J. Boyle, Jr. has served as our Chief Executive Officer, and Director from July, 2001, and Chairman of the Board of Directors since February, 2006. Mr. Boyle also served as our President from July, 2001 through January, 2008. Prior to being named our President, Chief Executive Officer, and Director, Mr. Boyle was Vice President of LoopNet in charge of product and technology development and operations from December 1999 to July

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2001. Prior to joining LoopNet, Mr. Boyle was Senior Vice President of Products & Technology at Risk Management Solutions. Mr. Boyle holds a B.S. in Electrical Engineering from Stanford University.

Thomas Byrne has served as President and Chief Operating Officer since January, 2008. Mr. Byrne also served as Chief Marketing Officer and Vice President, Marketing and Sales since 2002 and Senior Vice President, Marketing and Sales since February, 2006. Prior to joining LoopNet, Mr. Byrne served as Group Vice President of NextCard, a credit card company. Mr. Byrne holds a B.S. of Electrical Engineering, with highest honors, from Georgia Tech and an M.B.A. from the Harvard Business School.

Brent Stumme has served as Chief Financial Officer and Vice President, Finance and Administration since 2001 and Senior Vice President, Finance and Administration since February, 2006. Prior to joining LoopNet, Mr. Stumme was Chief Financial Officer for PropertyFirst.com, Inc., which merged with the Company in July, 2001. Prior to joining PropertyFirst, Mr. Stumme was Senior Finance Executive of the CalMat division of Vulcan Materials Company. Mr. Stumme holds a B.S. in Accounting from the University of Oregon and an M.B.A. from the University of Southern California. Mr. Stumme is a certified public accountant.

Jason Greenman has served as Chief Strategy Officer and Senior Vice President, Corporate Development since January, 2008. Mr. Greenman also served as Chief Product Officer from 2005 through 2008 and Senior Vice President, Business and Product Development from 2006 through 2008. Mr. Greenman joined LoopNet as Vice President, Business and Product Development in 2002. Prior to joining LoopNet, Mr. Greenman co-founded and served as Senior Vice President, Business Development, of Clareon Corporation, a provider of Internet-based electronic payment services, from 2000 to 2001. Mr. Greenman holds a B.S. in Product Design with distinction from Stanford University and a Master s of Management from the Stanford University Graduate School of Business, where he was a Sloan Fellow.

Wayne Warthen has served as Chief Technology Officer since 2001 and Senior Vice President, Information Technology since February, 2006. Mr. Warthen also served as Vice President, Information Technology since 1999. Prior to joining LoopNet, Mr. Warthen was Director of Internet Infrastructure, PC/LAN services and Business Development for Experian Information Solutions from 1996 to 1999. Mr. Warthen holds a B.A. in Economics from California State University at Fullerton.

Item 1A. *Risk Factors.*

Because of the following factors, as well as other variables affecting our operating results and financial condition, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we deem to be currently immaterial also may impair our business operations. If any of the stated risks actually occur, our business, financial condition and operating results could be materially adversely affected.

The ongoing decline in the commercial real estate market and overall economy could negatively affect our revenues, expenses and operating results.

Our business is sensitive to trends in the general economy and trends in commercial real estate markets, which are unpredictable and have recently experienced severe disruptions. Currently, the credit crisis and turbulence in the debt markets continue to affect the investment sales market, contributing to a significant slow down in our industry, which we anticipate will continue through 2009. These negative general economic conditions could further reduce the overall amount of sale and leasing activity in the commercial real estate industry, and hence the demand for our services. Conditions such as recent tightening in credit markets and negative trends in consumer confidence in global and domestic markets could also further dampen the general economy, and our business. While we believe the increase in the number of distressed sales and resulting decrease in asset prices will eventually translate to greater market activity, the current overall reduction in sales transaction volume continues to impact our business. Therefore, our operating results, to the extent they reflect changes in the broader commercial real estate industry, may be subject to significant fluctuations. Factors that are affecting and could further affect the commercial real estate industry include:

- periods of economic slowdown or recession globally, in the United States or locally;
- inflation;
- flows of capital into or out of real estate investment in the United States or various regions of the United States;
- rates of unemployment;
- interest rates;
- the availability and cost of capital;
- wage and salary levels; or
- concerns about any of the foregoing.

We believe that the commercial real estate industry is composed of many submarkets, each of which is influenced differently, and often in opposite ways, by various economic factors. We believe that commercial real estate submarkets can be differentiated based on factors such as geographic location, value of properties, whether properties are sold or leased, and other factors. Each such submarket may be affected differently by, among other things:

- economic slowdown or recession;
- changes in levels of rent or appreciation of asset values;
- changing interest rates;
- tax and accounting policies;
- the availability and cost of capital;
- costs of construction;
- increased unemployment;
- lower consumer confidence;
- lower wage and salary levels;
- war, terrorist attacks or natural disasters; or
- the public perception that any of these conditions may occur.

For example, as of December 31, 2008, approximately 27% of our premium members were based in California and approximately 11% were based in Florida. Negative conditions in these or other significant commercial real estate submarkets could disproportionately affect our business as compared to competitors who have less or different geographic concentrations of their customers. Events such as a war or a significant terrorist attack are also likely to affect the general economy, and could cause a slowdown in the commercial real estate industry and therefore reduce utilization of our marketplace, which could reduce our revenue from premium members. The occurrence of any of the events listed above could increase our need to make significant expenditures to continue to attract customers to our marketplace.

Our business is largely based on a subscription model, and accordingly, any failure to increase the number of our customers or retain existing customers could cause our revenues to decline.

Our customers include premium members of our LoopNet marketplace, LoopLink users, users of our BizBuySell, Cityfeet and LandAndFarm marketplaces, RecentSales subscribers, REApplications users and advertising and lead generation customers. Most of our revenues are generated by subscription fees paid by our premium members. Our growth depends in large part on increasing the number of our free basic members and then converting them into paying premium members, as well as retaining existing premium members. Either category of members may decide not to continue to use our services in favor of alternate services or because of budgetary constraints or other reasons. Historically, the overall conversion ratio of premium members to basic members on LoopNet has been approximately five percent, and our average monthly cancellation rate for premium members has ranged between three and five percent. We believe that a decline in the fourth quarter of 2008 in our basic to premium conversion rate to approximately 2.4% is attributable to an increasing proportion of principals (i.e., investors and tenants) in our membership base, who convert to premium membership at a lower rate than the professional agents and brokers in the market, the impact of a slowdown in commercial real estate transaction activity and an approximately 17% increase in the average subscription prices which we charge our premium members. During the current quarter the commercial real estate credit markets experienced further tightening as a result of the subprime issues affecting the residential real estate credit markets. In the fourth quarter of 2008 our cancellation rate exceeded our historical levels and we believe the increase is attributable to the credit tightening that the commercial real estate industry experienced and the increase in the average subscription prices which we charge our premium members.

If our existing members choose not to use our services, decrease their use of our services, or change from being premium members to basic members, or we are unable to attract new members, listings on our site could be reduced, search activity on our website could decline, the usefulness of our services could be diminished, and we could incur significant expenses and/or experience declining revenues.

The value of our marketplace to our customers is dependent on increasing the number of property listings provided by and searches conducted by our members. To grow our marketplace, we must convince prospective members to use our services. Prospective members may not be familiar with our services and may be accustomed to using traditional methods of listing, searching, marketing and advertising commercial real estate. We cannot assure you that we will be successful in continuing to acquire more members, in continuing to convert free basic members into paying premium members or that our future sales efforts in general will be effective. Further, it is difficult to estimate the total number of active commercial real estate agents, property owners, landlords, buyers and tenants in the United States during any given period. As a result, we do not know the extent to which we have penetrated this market. If we reach the point at which we have attempted to sell our services to a significant majority of commercial real estate transaction participants in the United States, we will need to seek additional products and markets in order to maintain our rate of growth of revenues and profitability.

We rely on our marketing efforts to generate new registered members. If our marketing efforts are ineffective, we could fail to attract new registered members, which could reduce the attractiveness of our marketplace to current and potential customers and lead to a reduction in our revenues.

We believe that the attractiveness of our services and products to our current and potential customers increases as we attract additional members who provide additional property listings or conduct searches on our marketplace. This is because an increase in the number of our members and the number of listings on our website increases the utility of our website and of its associated search, listing and marketing services. In order to attract new registered members, we rely on our marketing efforts, such as word-of-mouth referrals, direct marketing, online and traditional advertising, sponsoring and attending local industry association events, and attending and exhibiting at industry trade shows and conferences. There is no guarantee that our marketing efforts will be effective. If we are unable to effectively market our products and services to new customers, or convert existing basic members into premium members, and we are not able to offset any decline in our rate of conversion of basic members to premium members with higher average subscription prices, our revenues and operating results could decline as a result of current premium members failing to renew their premium memberships and potential premium members failing to become premium members.

If we are unable to obtain or retain listings from commercial real estate brokers, agents, and property owners, our marketplace could be less attractive to current or potential customers, which could result in a reduction in our

revenues.

Our success depends substantially on the number of commercial real estate property listings submitted by brokers, agents and property owners to our online marketplace. The number of listings on our marketplace has grown from approximately 460,000 as of December 31, 2006, to approximately 560,000 as of December 31, 2007,

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to approximately 652,000 as of December 31, 2008. If agents marketing large numbers of property listings, such as large brokers in key real estate markets, choose not to continue their listings with us, or choose to list them with a competitor, our website would be less attractive to other real estate industry transaction participants, thus resulting in cancelled premium memberships, failure to attract and retain new members, or failure to attract advertising and lead generation revenues.

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

The market to provide listing, searching and marketing services to the commercial real estate industry is highly competitive and fragmented, with limited barriers to entry. Our current or new competitors may adopt certain aspects of our business model, which could reduce our ability to differentiate our services. All of the services which we provide to our customers, including property and business listing, searching, and marketing services, are provided separately or in combination to our current or potential customers by other companies that compete with us. These companies, or new market entrants, will continue to compete with us. Listings in the commercial real estate industry are not marketed exclusively through any single channel, and accordingly our competition could aggregate a set of listings similar to ours. Increased competition could result in a reduction in our revenues or our rate of acquisition of new customers, or loss of existing customers or market share, any of which would harm our business, operating results and financial condition.

We compete with CoStar Group, Inc., a provider of information and research services to the commercial real estate market. Some of the services that CoStar offers directly compete with our product offering. For example, CoStar provides commercial real estate for sale and for lease property listings which compete directly with our online commercial real estate marketplace. CoStar also recently introduced a marketing service which will compete directly with our marketing services geared toward the general public.

Several companies, such as Property Line International, Inc., have created online property listing services that compete with us. These companies aggregate property listings obtained through various sources, including from commercial real estate agents. In addition, newspapers typically include on their websites listings of commercial real estate for sale and for lease. If our current or potential customers choose to use these services rather than ours, demand for our services could decline.

Additionally, the National Association of REALTORS ®, or NAR, its local boards of REALTORS ®, its various affiliates, and other third parties have in the past created, and they or others may in the future create, commercial real estate information and listing services. These services could provide commercial real estate for sale and for lease property listings which compete directly with our online commercial real estate marketplace. If they succeed in attracting a significant number of commercial real estate transaction participants, demand for our services may decrease.

Large Internet companies that have large user bases and significantly greater financial, technical and marketing resources than we do, such as eBay Inc. and craigslist, Inc., provide commercial real estate listing or advertising services in addition to a wide variety of other products or services. eBay and craigslist operate real estate listing services which include commercial real estate and operating businesses. Other large Internet companies, such as Google, Yahoo! and Microsoft, have classified listing services which could be used to market and search for commercial real estate property listings. Competition by these companies could reduce demand for our services or require us to make additional expenditures, either of which could reduce our profitability.

Our operating results and revenues are subject to fluctuations that may cause our stock price to decline, and our quarterly financial results may be subject to seasonality, each of which could cause our stock price to decline.

Our revenues, expenses and operating results have fluctuated in the past and are likely to continue to do so in the future. Our revenues, expenses and operating results may fluctuate from quarter to quarter due to factors including those described below and elsewhere in this Annual Report on Form 10-K:

- rates of member adoption and retention;
- changes in our pricing strategy and timing of changes;

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changes in our marketing or other corporate strategies;

our introduction of new products and services or changes to existing products and services;

the amount and timing of our operating expenses and capital expenditures;

the amount and timing of non-cash stock-based charges;

the amount and timing of litigation related expenses;

costs related to acquisitions of businesses or technologies; and

other factors outside of our control.

Our results of operations could vary significantly from quarter to quarter due to the seasonal nature of the commercial real estate industry. The timing of widely observed holidays and vacation periods, particularly slow downs during the end-of-year holiday period, and availability of real estate agents and related service providers during these periods, could significantly affect our quarterly operating results during that period. For example, we have historically experienced a significant decline in the rate of growth of both new memberships and revenues during the fourth quarter.

These fluctuations or seasonality effects could negatively affect our results of operations during the period in question and/or future periods or cause our stock price to decline.

If we are unable to introduce new or upgraded services or products that our customers recognize as valuable, we may fail to attract new customers or retain existing customers. Our efforts to develop new and upgraded products and services could require us to incur significant costs.

To continue to attract new members to our online marketplace, we may need to continue to introduce new products or services. We may choose to develop new products and services independently or choose to license or otherwise integrate content and data from third parties. For example, in early 2006 we introduced our RecentSales product and aerial imagery MapSearch feature to address perceived customer needs and to add additional searching enhancements, both of which utilize content and technology licensed from third parties. The introduction of these improvements imposed costs on our business and required the use of our resources, and there is no guarantee that we will continue to be able to access these technologies and content on commercially reasonable terms or at all. If customers or potential customers do not recognize the value of our new services or enhancements to existing services, they might choose not to become premium members or to otherwise utilize our marketplace.

Developing and delivering these new or upgraded services or products may impose costs and require the attention of our product and technology department and management. This process is costly, and we may experience difficulties in developing and delivering these new or upgraded services or products. In addition, successfully launching and selling a new service or product will require the use of our sales and marketing resources. Efforts to enhance and improve the ease of use, responsiveness, functionality and features of our existing products and services have inherent risks, and we may not be able to manage these product developments and enhancements successfully. If we are unable to continue to develop new or upgraded services or products, then our customers may choose not to use our products or services.

We could face liability for information on our website or general litigation claims.

We provide information on our website, including commercial real estate listings, that is submitted by our customers and third parties. We also allow third parties to advertise their products and services on our website and include links to third-party websites. We could be exposed to liability with respect to this information. Customers could assert that information concerning them on our website contains errors or omissions and third parties could seek damages for losses incurred if they rely upon incorrect information provided by our customers or advertisers. We could also be subject to claims that the persons posting information on our website do not have the right to post such information or are infringing the rights of third parties. For example, in 1999 CoStar sued us, claiming that we had directly and indirectly infringed their copyrights in photographs by permitting our members to post those photographs on our website. Although the court issued rulings that were favorable to us in that litigation, other persons might assert similar or other claims in the future. Among other things, we might be subject to claims that by directly or indirectly providing links to websites operated by third parties, we would be liable for wrongful actions by the third parties operating those websites. Even if these claims do not result in liability to us, we could incur significant costs in investigating and defending against these claims.

From time to time, we are involved in other disputes that arise in the ordinary course of business. The number and significance of these claims may increase as our business expands and our company grows larger. Any claims or actions against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources.

The Digital Millennium Copyright Act, or DMCA, allows copyright owners to obtain subpoenas compelling disclosure by an Internet service provider of the names of customers of that Internet service provider. We have been served with such subpoenas in the past, and may in the future be served with additional such subpoenas. Compliance with subpoenas under the DMCA may divert our resources, including the attention of our management, which could impede our ability to operate our business.

Our potential liability for information on our websites or distributed by us to others could require us to implement additional measures to reduce our exposure to such liability, which may require us to expend substantial resources and limit the attractiveness of our online marketplace to users. Our general liability insurance may not cover all potential claims to which we are exposed and may not be adequate to indemnify us for all liability that may be imposed.

If we are unable to convince commercial real estate brokers and other commercial real estate professionals that our services and products are superior to traditional methods of listing, searching, and marketing commercial real estate, they could choose not to use our marketplace, which could reduce our revenues or increase our expenses.

A primary source of new customers for us is the commercial real estate professional community. Many commercial real estate professionals are used to listing, searching and marketing real estate in traditional ways, such as through the distribution of print brochures, sharing of written lists, placing signs on properties, word-of-mouth, and newspaper advertisements. Commercial real estate professionals may prefer to continue to use traditional methods or may be slow to adopt our products and services. If we are not able to continue to persuade commercial real estate professionals of the efficacy of our products and services, they may choose not to use our marketplace, which could reduce our revenues. In addition, we could be required to increase our marketing and other expenditures to continue our efforts to attract these potential customers.

Our business depends on retaining and attracting capable management and operating personnel.

Our success depends in large part on our ability to retain and attract high-quality management and operating personnel, including our Chief Executive Officer and Chairman of the Board of Directors, Richard J. Boyle, Jr.; our President and Chief Operating Officer, Thomas Byrne; our Chief Financial Officer and Senior Vice President, Finance and Administration, Brent Stumme; our Chief Strategy Officer and Senior Vice President, Corporate Development, Jason Greenman; and our Chief Technology Officer and Senior Vice President, Information Technology, Wayne Warthen. Our business plan was developed in large part by our senior-level officers, and its implementation requires their skills and knowledge. We may not be able to offset the impact on our business of the loss of the services of Mr. Boyle or other key officers or employees. We have no employment agreements that prevent any of our key personnel from terminating their employment at any time, and we do not maintain any key-person life insurance for any of our personnel.

Furthermore, our business requires skilled technical, management, product and technology, and sales and marketing personnel, who are in high demand and are often subject to competing offers. Competition for qualified employees is intense in our industry, and the loss of a substantial number of qualified employees, or an inability to attract, retain and motivate additional highly skilled employees required for the expansion of our activities, could harm our business. To retain and attract key personnel, we use various measures, including an equity incentive program and incentive bonuses for key executive officers and other employees. We have also entered into change of control severance agreements with our key executive officers, which provide, in part, certain severance benefits and acceleration of unvested equity awards if their employment is terminated in connection with a change of control of the Company. These measures may not be enough to attract and retain the personnel we require to execute our business plan.

If we fail to protect confidential information against security breaches, or if our members or potential members are reluctant to use our marketplace because of privacy concerns, we might face additional costs, and activity in our marketplace could decline.

As part of our membership registration process, we collect, use and disclose personally identifiable information, including names, addresses, phone numbers, credit card numbers and email addresses. Our policies concerning the collection, use and disclosure of personally identifiable information are described on our websites. While we believe that our policies are appropriate and that we are in compliance with our policies, we could be subject to legal claims, government action or harm to our reputation if actual practices fail to comply or are seen as failing to comply with our policies or with local, state or federal laws concerning personally identifiable information or if our policies are inadequate to protect the personally identifiable information that we collect.

Concern among prospective customers regarding our use of the personal information collected on our websites could keep prospective customers from using our marketplace. Industry-wide incidents or incidents with respect to our websites, including misappropriation of third-party information, security breaches, or changes in industry standards, regulations or laws could deter people from using the Internet or our website to conduct transactions that involve the transmission of confidential information, which could harm our business. For example, in the first quarter of 2008, our subsidiary, Cityfeet.com, was informed that there may have been a security breach to its credit card database and that some personally identifiable information of individuals contained in that database may have been misappropriated. Under California law and the laws of a number of other states, if there is a breach of our computer systems and we know or suspect that unencrypted personal customer data has been stolen, we are required to inform any customers whose data was stolen, which could harm our reputation and business.

In addition, another California law requires businesses that maintain personal information about California residents in electronic databases to implement reasonable measures to keep that information secure. Our practice is to encrypt all personal information, but we do not know whether our current practice will continue to be deemed sufficient under the California law. Other states have enacted different and sometimes contradictory requirements for protecting personal information collected and maintained electronically. Compliance with numerous and contradictory requirements of the different states is particularly difficult for an online business such as ours which collects personal information from customers in multiple jurisdictions.

Another consequence of failure to comply is the possibility of adverse publicity and loss of consumer confidence were it known that we did not take adequate measures to assure the confidentiality of the personally identifiable information that our customers had given to us. This could result in a loss of customers and revenue that could jeopardize our success. While we intend to comply fully with all relevant laws and regulations, we cannot assure you that we will be successful in avoiding all potential liability or disruption of business in the event that we do not comply in every instance or in the event that the security of the customer data that we collect is compromised, regardless of whether our practices comply or not. If we were required to pay any significant amount of money in satisfaction of claims under these laws or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any such laws, our business, operating results and financial condition could be adversely affected. Further, complying with the applicable notice requirements in the event of a security breach could result in significant costs.

Our services may infringe the intellectual property rights of others and we may be subject to claims of intellectual property rights infringement.

We may be subject to claims against us alleging infringement of the intellectual property rights of others, including our competitors. Any intellectual property claims, regardless of merit, could be expensive to litigate or settle and could significantly divert our management s attention from other business concerns. For example, on or about April 8, 2008, Real Estate Alliance Ltd. filed a lawsuit against the Company and its subsidiary, Cityfeet.com

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Inc., in the U.S. District Court for the Central District of California, Western Division, alleging that the Company and Cityfeet.com Inc. have infringed upon certain patents of Real Estate Alliance Ltd.

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

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

If we are unable to enforce or defend our ownership and use of intellectual property, our business, competitive position and operating results could be harmed.

The success of our business depends in large part on our intellectual property, and our intellectual property rights, including existing and future trademarks, trade secrets, and copyrights, are and will continue to be valuable and important assets of our business. Our business could be significantly harmed if we are not able to protect the content of our databases and our other intellectual property.

We have taken measures to protect our intellectual property, such as requiring our employees and consultants with access to our proprietary information to execute confidentiality agreements. We also have taken action, and in the future may take additional action, against competitors or other parties who we believe to be infringing our intellectual property. For example, on November 15, 2007 the Company filed a lawsuit against CoStar Group, Inc. and CoStar Realty Information, Inc. in the Superior Court for the State of California, County of Los Angeles, asserting claims for breach of contract and unfair business practices arising out of CoStar s alleged unlawful use of data from the Company s Web site for competitive purposes. We may in the future find it necessary to assert claims regarding our intellectual property. These measures may not be sufficient or effective to protect our intellectual property. These measures could also be expensive and could significantly divert our management s attention from other business concerns.

We also rely on laws, including those regarding patents, copyrights, and trade secrets, to protect our intellectual property rights. Current laws may not adequately protect our intellectual property or our databases and the data contained in them. In addition, legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and evolving, and we cannot assure you of the future viability or value of any of our proprietary rights.

Others may develop technologies that are similar or superior to our technology. Any significant impairment of our intellectual property rights could require us to develop alternative intellectual property, incur licensing or other expenses, or limit our product and service offerings.

If we are not able to successfully identify or integrate acquisitions, our management s attention could be diverted, and efforts to integrate acquisitions could consume significant resources.

We have made recent acquisitions of, and investments in, other companies, and we may in the future further expand our markets and services in part through additional acquisitions of, or investments in, other complementary businesses, services, databases and technologies. For example, in October, 2004, we acquired BizBuySell, an online marketplace for operating businesses for sale, in June, 2007, we acquired a minority position in Xceligent, Inc., in August, 2007, we acquired Cityfeet.com Inc., in April, 2008, we acquired REApplications, Inc., and in July, 2008, we acquired LandAndFarm.com. Mergers and acquisitions are inherently risky, and we cannot assure you that our acquisitions will be successful. The successful execution of any acquisition strategy will depend on our ability to identify, negotiate, complete and integrate such acquisitions and, if necessary, obtain satisfactory debt or equity

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financing to fund those acquisitions. Failure to manage and successfully integrate acquired businesses could harm our business. Acquisitions involve numerous risks, including the following:

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

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

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

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

dependence on unfamiliar affiliates and partners;

insufficient revenues to offset increased expenses associated with acquisitions;

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

responsibility for the liabilities of acquired businesses;

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

potential loss of key employees of the acquired companies.

We may also incur costs, and divert our management s attention from our business, by pursuing potential acquisitions or other investments which are never consummated.

Although we undertake a due diligence investigation of each business that we acquire, there may be liabilities of the acquired companies that we fail to or are unable to discover during the due diligence investigation and for which we, as a successor owner, may be responsible. In connection with acquisitions, we generally seek to minimize the impact of these types of potential liabilities through indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities due to limitations in scope, amount or duration, financial limitations of the indemnitor or warrantor or other reasons.

In addition, if we finance or otherwise complete acquisitions or other investments by issuing equity or convertible debt securities, our existing stockholders may be diluted.

We may be unable to effectively manage our growth.

As our operations have expanded, and as the result of acquisitions of other companies, we have experienced rapid growth in our headcount. Our overall employee base has grown from 198 employees as of December 31, 2006 to 305 employees as of December 31, 2008. If we do not effectively manage our growth, our customer service and responsiveness could suffer and our costs could increase, which could harm our brand, increase our expenses, and reduce our profitability. Restructuring costs could also be required if we do not effectively manage our growth.

Unless we develop, maintain and protect our brand identity, our business may not grow and our financial results may suffer.

In an effort to obtain additional registered members and increase use of our online marketplace by commercial real estate transaction participants, we intend to continue to pursue a strategy of enhancing our brand both through online advertising and through traditional print media. These efforts can involve significant expense and may not have a material positive impact on our brand identity. In addition, maintaining our brand will depend on our ability to provide products and services that are perceived as being high-value, which we may not be able to implement successfully. If we are unable to maintain and enhance our brand, our ability to attract and retain customers or successfully expand our operations will be harmed.

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Changes in or interpretations of accounting rules and regulations, such as expensing of stock options, could result in unfavorable accounting charges or require us to change our compensation policies.

In the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which revises SFAS 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). SFAS 123R requires that share-based payment transactions with employees be recognized in the financial statements based on their value and recognized as compensation expense over the vesting period. Prior to SFAS 123R we disclosed the pro forma effects of SFAS 123 under the minimum value method. We adopted SFAS 123R effective January 1, 2006, prospectively for new equity awards issued subsequent to January 1, 2006. As a result of SFAS 123R, we may choose to reduce our reliance on stock options as a compensation tool. If we reduce our use of stock options and do not adopt other forms of compensation, it may be more difficult for us to attract and retain qualified employees. If we do not reduce our reliance on stock options, our operating expenses would increase. We currently rely on stock options to retain existing employees and attract new employees. Although we believe that our accounting practices are consistent with current accounting pronouncements, changes to or interpretations of accounting methods or policies in the future may require us to adversely revise how our consolidated financial statements are prepared.

If our operating results do not meet the expectations of investors or equity research analysts, our market price may decline and we may be subject to class action litigation.

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

If our website or our other services experience system failures, our customers may be dissatisfied and our operations could be impaired.

Our business depends upon the satisfactory performance, reliability and availability of our website. Problems with our website could result in reduced demand for our services. Furthermore, the software underlying our services is complex and may contain undetected errors. Despite testing, we cannot be certain that errors will not be found in our software. Any errors could result in adverse publicity, impaired use of our services, loss of revenues, cost increases or legal claims by customers.

Additionally, our services substantially depend on systems provided by third parties, over whom we have little control. Interruptions in our services could result from the failure of data providers, telecommunications providers, or other third parties. We depend on these third-party providers of Internet communication services to provide continuous and uninterrupted service. We also depend on Internet service providers that provide access to our services. Any disruption in the Internet access provided by third-party providers or any failure of third-party providers to handle higher volumes of user traffic could harm our business.

Our internal network infrastructure could be disrupted or penetrated, which could materially impact our ability to provide our services and our customers confidence in our services.

Our operations depend upon our ability to maintain and protect our computer systems, most of which are located in redundant and independent systems in Los Angeles, California and San Francisco, California. In addition, our BizBuySell website is hosted at a co-location facility in Virginia. While we believe that our systems are adequate to support our operations, our systems may be vulnerable to damage from break-ins, unauthorized access, vandalism, fire, floods, earthquakes, power loss, telecommunications failures and similar events. Although we maintain insurance against fires, floods, and general business interruptions, the amount of coverage may not be adequate in any particular case. Furthermore, any damage or disruption could materially impair or prohibit our ability to provide our services, which could significantly impact our business.

Experienced computer programmers, or hackers, may attempt to penetrate our network security from time to time. For example, in the first quarter of 2008, our subsidiary, Cityfeet.com, was informed that there may have been a security breach to its credit card database, and that some personally identifiable information of individuals contained in that database may have been misappropriated. The potential breach has not affected any personally identifiable information with respect to LoopNet members, which information is maintained on separate servers. Although we maintain a firewall, and will continue to enhance and review our databases to prevent unauthorized and unlawful intrusions, a hacker who penetrates our network security could misappropriate proprietary information or cause interruptions in our services. We might be required to expend significant capital and resources to protect against, or to alleviate, problems caused by hackers. We also may not have a timely remedy against a hacker who is able to penetrate our network security. In addition to purposeful security breaches, the inadvertent transmission of computer viruses could expose us to litigation or to a material risk of loss. Any of these incidents could materially impact our ability to provide our services as well as materially impact the confidence of our customers in our services, either of which could significantly impact our business.

We may be subject to regulation of our advertising and customer solicitation or other newly-adopted laws and regulations.

As part of our membership registration process, our customers agree to receive emails and other communications from us. However, we may be subject to restrictions on our ability to communicate with our customers through email and phone calls. Several jurisdictions have proposed or adopted privacy-related laws that restrict or prohibit unsolicited email or spam. These laws may impose significant monetary penalties for violations. For example, the CAN-SPAM Act of 2003, or CAN-SPAM, imposes complex and often burdensome requirements in connection with sending commercial email. Key provisions of CAN-SPAM have yet to be interpreted by the courts. Depending on how it is interpreted, CAN-SPAM may impose burdens on our email marketing practices or services we offer or may offer. Although CAN-SPAM is thought to have pre-empted state laws governing unsolicited email, the effectiveness of that preemption is likely to be tested in court challenges. If any of those challenges are successful, our business may also be subject to state laws and regulations that may further restrict our email marketing practices and the services we may offer. The scope of those regulations is unpredictable. Compliance with laws and regulations of different jurisdictions imposing different standards and requirements is very burdensome for an online business. Our business, like most online businesses, offers products and services to customers in multiple state jurisdictions. Our business efficiencies and economies of scale depend on generally uniform service offerings and uniform treatment of customers. Compliance requirements that vary significantly from jurisdiction to jurisdiction impose an added cost to our business and increased liability for compliance deficiencies. In addition, laws or regulations that could harm our business could be adopted, or reinterpreted so as to affect our activities, by the government of the United States, state governments, regulatory agencies or by foreign governments or agencies. This could include, for example, laws regulating the source, content or form of information or listings provided on our websites, the information or services we provide or our transmissions over the Internet. Violations or new interpretations of these laws or regulations may result in penalties or damage our reputation or could increase our costs or make our services less attractive.

An important aspect of the new Internet-focused laws is that where federal legislation is absent, states have begun to enact consumer-protective laws of their own and these vary significantly from state to state. Thus, it is difficult for any company to be sufficiently aware of the requirements of all applicable state laws, and it is further difficult or impossible for any company to fully comply with their inconsistent standards and requirements. In addition to the consequences that could result from violating one or another state s laws, the cost of attempting to comply will be considerable. Also, as our business grows to be world-wide, we will be required to comply with the laws of foreign countries, and the costs of that compliance effort will be considerable.

Our stock price may be volatile and you may be unable to sell your shares at or above the purchase price.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this section of this Annual Report on Form 10-K, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies, including ours. These fluctuations often

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have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, and the current economic crisis, may negatively affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management s attention from other business concerns, which could seriously harm our business.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our amended and restated certificate of incorporation and our bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- providing for a classified board of directors with staggered, three-year terms;
- not providing for cumulative voting in the election of directors or imposing a majority voting standard;
- authorizing the board to issue, without stockholder approval, preferred stock rights senior to those of common stock;
- prohibiting stockholder action by written consent;
- limiting the persons who may call special meetings of stockholders; and
- requiring advance notification of stockholder nominations and proposals.

In addition, the provisions of Section 203 of the Delaware General Corporate Law govern us. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

These and other provisions in our amended and restated certificate of incorporation, our bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

Our headquarters are located in San Francisco, California, where we lease approximately 46,157 square feet of office space, pursuant to a lease that expires in 2015. We also lease approximately 23,741 square feet of office space in Monrovia, California, pursuant to a lease that expires in 2011. Cityfeet.com, Inc. offices are located in New York where we lease approximately 3,150 square feet of office space, pursuant to a lease that expires in 2012. We believe that these facilities are suitable and appropriately support our business needs.

Item 3. ***Legal Proceedings.***

On November 15, 2007 the Company filed a lawsuit against CoStar Group, Inc. and CoStar Realty Information, Inc. in the Superior Court for the State of California, County of Los Angeles, asserting claims for breach of contract and unfair business practices arising out of CoStar s alleged unlawful use of data from the Company s Web site for competitive purposes. On or about January 22, 2008, CoStar Group, Inc. and CoStar Realty Information, Inc. filed a Cross-Complaint against the Company in that lawsuit, alleging that the Company breached a 2005 Settlement Agreement between the Company and CoStar and CoStar s terms of use, and asserting various state law causes of action arising out of the Company s purported unlawful accessing of and use of data on CoStar s Web site. CoStar s Cross-Complaint seeks unspecified damages and injunctive relief. On or about February 22, 2008, the Company filed a special motion to strike CoStar s Cross-Complaint and dismiss all claims in that pleading. On May 30, 2008, the Court denied the Company s motion. The Company filed a Notice of Appeal from that Order on July 7, 2008. On December 15, 2008, the Company requested that its appeal be dismissed, in order to facilitate the Company s immediate and timely pursuant of the merits of its pending claims against CoStar. On January 21, 2009, CoStar filed a motion for attorney s fees relating to its opposition of the Company s special motion to strike and requesting an award of $323,000. The Company believes it has meritorious defenses to CoStar s claims and intends to vigorously defend itself against those claims. The litigation is currently in its discovery phase.

On or about February 5, 2008, CoStar Group, Inc. filed a lawsuit against the Company in the U.S. District Court for the Southern District of New York, alleging that the Company has engaged in false advertising by misrepresenting the number of users of its Web site. The Complaint seeks unspecified damages and injunctive relief. On March 27, 2008, the Company filed an Answer denying the material allegations of the Complaint and setting forth affirmative defenses. On or about June 23, 2008, CoStar filed a First Amended Complaint, adding further allegations concerning the Company s advertising and claims under New York law. On June 24, 2008, the Company filed an Answer to CoStar s First Amended Complaint, denying its material allegations and setting forth affirmative defenses. The Company believes CoStar s Complaint and First Amended Complaint have no merit and that it intends to vigorously defend itself.

On June 24, 2008, the Company filed Counterclaims against CoStar Group, Inc. and CoStar Realty Information, Inc. The Counterclaims allege that CoStar has violated federal and New York law by engaging in false advertising, unfair competition and trade libel. On July 7, 2008, the Company filed Amended Counterclaims alleging additional false advertising by CoStar. On June 20, 2008, CoStar moved for a preliminary injunction with respect to the Company s purported false advertising. On June 30, 2008, the Company moved to preliminarily enjoin CoStar s false advertising. Both parties were given leave to take expedited discovery. On February 11, 2009, the Court denied the motions. A trial date has not been set in this matter. The Company believes it has meritorious defenses to CoStar s claims and intends to vigorously defend itself.

In April 2008, LoopNet and CityFeet (collectively the Company) were sued by Real Estate Alliance, Ltd. in the U.S. District Court for the Central District of California for alleged infringement of certain patents. The complaint seeks unspecified damages, attorney fees and costs. The Company denies the alleged infringement and has filed a counter-claim for a declaratory judgment that the patents-in-suit are invalid and not infringed. To date, discovery in the action has been limited and the court has not yet set a trial date. Moreover, because the patents-in-suit have been asserted against several other entities, in another pending lawsuit in the same court, (the earlier filed action) the Company and plaintiff are awaiting court approval of an agreement to stay all discovery in the present case and for the Company and plaintiff to be bound by certain determinations that will be made in the earlier filed action. At this time, the Company cannot predict the outcome of the case, but intends to vigorously defend itself.

Currently, there is no other material litigation pending against the Company. From time to time, the Company may become party to litigation and subject to claims incident to the ordinary course of the Company s business.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

None.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Market information

Our common stock trades on the Nasdaq Global Select Market under the symbol LOOP. We have not listed our stock on any other markets or exchanges. The following table shows the high and low sale prices for our common stock as reported by the Nasdaq Global Select Market:

	High	Low
2008		
First Quarter	$ 15.48	$ 10.60
Second Quarter	$ 14.47	$ 10.59
Third Quarter	$ 12.50	$ 9.25
Fourth Quarter	$ 10.17	$ 4.75
2007		
First Quarter	$ 17.99	$ 14.50
Second Quarter	$ 24.21	$ 15.02
Third Quarter	$ 26.37	$ 16.76
Fourth Quarter	$ 23.90	$ 13.22

As of February 19, 2009, we had approximately 154 common stockholders of record. This does not include the number of persons whose stock is in nominee or street name accounts through brokers.

Dividend policy

We have never declared or paid dividends on our common stock. We intend to retain our earnings for use in our business and repurchases of our common stock, and therefore we do not anticipate declaring or paying any cash dividends in the foreseeable future.

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Performance Graph

The following graph shows the total shareholder return of an investment of $100 in cash on June 7, 2006 (the date on which our common stock was first traded on the Nasdaq Global Select Market) for (i) our common stock, (ii) the Nasdaq Stock market (U.S.) Index and (iii) the Goldman Sachs Internet Trading Index, at the closing price on June 7, 2006. All values assume reinvestment of the full amount of all dividends, if any.

		Culmulative Total Return		
	6/7/2006	**12/29/2006**	**12/31/2007**	**12/31/2008**
LOOPNET, INC.	100.00	99.87(1)	93.67(1)	45.47(1)
NASDAQ STOCK MARKET (U.S)	100.00	112.25	123.26	73.29
GOLDMAN SACHS INTERNET TRADING INDEX	100.00	116.95	127.45	67.32

(1) Based on the initial public offering price of $12.00 per share on June 6, 2006, the cumulative total return is $124.83, $117.08 and $56.83 on 12/29/06, 12/31/07 and 12/31/08, respectfully.

The returns shown on the graph do not necessarily predict future performance.

Issuer Purchases of Equity Securities

Stock repurchase activity during the three months ended December 31, 2008 was as follows (dollars in thousands except per share amounts):

Period	**(a) Total Number of Shares Purchased (#)(1)**	**(b) Average Price Paid Per Share ($)**	**(c) Total Number of Purchased as Part of Publicly Announced Plans or Programs (#)**	**(d) Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs ($)(1)**
October 1 October 31, 2008	1,076,671	$ 9.25	1,076,671	$ 54,556
November 1 November 30, 2008	0	N/A	0	$ 54,556
December 1 December 31, 2008	0	N/A	0	$ 54,556
Total shares	1,076,671	$ 9.25	1,076,671	

(1) The shares repurchased were under our stock repurchase program that was announced on February 5, 2008 with an authorized level of $50 million. An additional authorized level of $50 million was announced on July 30, 2008. This program is subject to business and market conditions, and has no termination date, and may be suspended or discontinued at any time. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under securities laws.

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Item 6. ***Selected Financial Data.***

You should read the selected consolidated financial data set forth below in conjunction with our consolidated financial statements, the notes to our consolidated financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere in this annual report on Form 10-K.

The consolidated statements of operations data for the years ended December 31, 2004 and 2005 and the consolidated balance sheet data as of December 31, 2004, 2005 and 2006 are derived from our audited consolidated financial statements not included in this annual report on Form 10-K. The consolidated statements of operations data for each of the three years ended December 31, 2006, 2007 and 2008 have been derived from our audited consolidated financial statements that are included elsewhere in this annual report on Form 10-K. Our historical results are not necessarily indicative of results to be expected for future periods.

	Year Ended December 31,				
	2004	**2005**	**2006**	**2007**	**2008**
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues	$ 17,036	$ 30,977	$ 48,411	$ 70,729	$ 86,074
Cost of revenue(1)	2,562	3,825	5,599	8,033	10,858
Gross profit	14,474	27,152	42,812	62,696	75,216
Operating expenses(1):					
Sales and marketing	3,193	6,252	9,506	14,667	18,825
Technology and product development	2,686	3,746	4,341	6,427	9,075
General and administrative	4,889	5,955	7,803	12,253	18,739
Total operating expenses	10,768	15,953	21,650	33,347	46,639
Income from operations	3,706	11,199	21,162	29,349	28,577
Interest and other income, net	132	494	2,883	5,046	1,998
Income from continuing operations	3,838	11,693	24,045	34,395	30,575
Income tax expense (benefit)	118	(7,243)	8,550	13,268	12,297
Net income	$ 3,720	$ 18,936	$ 15,495	$ 21,127	$ 18,278
Net income per share					
Basic	$ 0.06	$ 0.58	$ 0.42	$ 0.55	$ 0.51
Diluted	$ 0.04	$ 0.54	$ 0.40	$ 0.52	$ 0.49

(1) Stock-based compensation is allocated as follows:

Year Ended December 31,

	2004	2005	2006	2007	2008
			(In thousands)		
Cost of revenue	$ 1	$ 18	$ 151	$ 357	$ 570
Sales and marketing	251	146	686	1,358	2,198
Technology and product development	236	350	195	600	1,311
General and administrative	1,188	150	421	1,180	1,855
Total	$ 1,676	$ 664	$ 1,453	$ 3,495	$ 5,934

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	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 8,724	$ 21,865	$ 89,028	$ 107,889	$ 64,587
Working capital	5,100	16,939	81,884	94,667	52,529
Total assets	12,971	35,177	100,205	137,359	108,210
Total liabilities	4,255	6,604	10,202	15,506	15,759
Reedeemable convertible preferred stock	39,712	39,962			
Total shareholders (deficit) equity	(30,996)	(11,389)	90,003	121,853	92,451

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands)				
Consolidated Statement of Cash Flows Data:					
Cash flow provided by operating activities	$ 6,921	$ 14,490	$ 23,205	$ 30,301	$ 25,105
Depreciation and amortization	278	505	611	1,154	2,199
Capital expenditures	(500)	(719)	(665)	(1,797)	(1,319)

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands)				
Other Operating Data (unaudited):					
LoopNet registered members at end of year	703,111	1,116,589	1,766,508	2,567,729	3,251,260
LoopNet premium members at end of year	35,482	57,461	78,952	88,340	77,283

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Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations.*

You should read the following discussion and analysis by our management of our financial condition and results of operations in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K . This discussion and other parts of this Annual Report on Form 10-K contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A of Part I, Risk Factors.

Overview

We are a leading online marketplace for commercial real estate in the United States, based on the number of monthly unique visitors to our marketplace, which averaged approximately 800,000 unique visitors per month during 2006, approximately 900,000 per month during 2007 and 2008, as reported by comScore Media Metrix. comScore Media Metrix defines a unique visitor as an individual who visited any content of a website, a category, a channel, or an application. Our online marketplace, available at *www.LoopNet.com* , enables commercial real estate agents, working on behalf of property owners and landlords, to list properties for sale or for lease and submit detailed information on property listings including qualitative descriptions, financial and tenant information, photographs and key property characteristics in order to find a buyer or tenant. We offer two types of memberships on the LoopNet online marketplace. Basic membership is available free-of-charge, and enables members to experience some of the benefits of the LoopNet offering, with limited functionality. LoopNet premium membership is available for a monthly subscription fee and provides enhanced marketing exposure for property listings and full access to LoopNet property listings, as well as numerous other features. The minimum term of a premium membership subscription is one month.

We believe that the key metrics that are material to an analysis of our business are the number of our registered members, the number of monthly unique visitors to our marketplace, the number of our premium members, the rate of conversion of our basic members to premium members, the average monthly subscription price paid by our premium members and the cancellation rate of our premium members. We also believe that the number of listings on our marketplace and the number of property profiles viewed by our registered members are key metrics, as they affect the attractiveness of our website to current and potential customers. Our registered members have grown from approximately 1.7 million as of December 31, 2006, to over 2.5 million as of December 31, 2007, to over 3.2 million as of December 31, 2008. The number of monthly unique visitors to our marketplace averaged 800,000 in 2006 and 900,000 in 2007 and 2008. Our premium members were 78,000 as of December 31, 2006, 88,000 as of December 31, 2007, and 77,000 as of December 31, 2008. Historically, our average monthly rate of conversion of basic members to premium members has been approximately five percent, and our average monthly cancellation rate for premium members has ranged between three and five percent. We believe that a decline in the fourth quarter of 2008 in our average monthly conversion rate to approximately 2.4% is attributable to an increasing proportion of principals (i.e. investors and tenants) in our membership base, who convert to premium membership at a lower rate than the professional agents and brokers in the market, the impact of a slowdown in commercial real estate transaction activity, and an approximately 17% increase in the average monthly subscription prices which we charge our premium members. Transaction activity in the Commercial Real Estate market that we serve has slowed, due to deteriorating economic conditions and due to the credit crunch impacting the availability and cost of debt capital for real estate transactions. In the fourth quarter of 2008 our cancellation rate exceeded our historical levels and we believe the increase is attributable to the credit tightening that the commercial real estate industry experienced, the slowdown in overall transaction activity in the industry, and the increase in the average subscription prices which we charge our premium members. The average monthly subscription price paid by our premium members has increased from $47.26 in the fourth quarter of 2006, to $56.00 in the fourth quarter of 2007, to $65.64 in the fourth quarter of 2008. Premium membership fees have driven the majority of our growth in revenues since 2001 and were the source of approximately

80% of our revenues in 2006, 77% of our revenue in 2007, and 75% of our revenue in 2008. The number of listings on our marketplace has grown from approximately 460,000 as of December 31, 2006, to approximately 560,000 as of December 31, 2007, to approximately 652,000 as of December 31, 2008. The number of property profiles that were viewed by our registered members increased from 130 million in 2006 to 150 million in 2007 to 169 million in 2008.

Our Revenues and Expenses

Our primary sources of revenues are:

- LoopNet premium membership fees;
- BizBuySell BrokerWorks membership fees and paid listings;
- advertising on, and lead generation from, our marketplaces,
- LoopLink product license fees; and
- LoopNet RecentSales membership fees.

Our revenues have grown significantly in the past three years from $48.4 million in 2006, to $70.7 million in 2007 and to $86.1 million in 2008. We have been profitable and cash flow positive each quarter since the second quarter of 2003. The key factors influencing our growth in revenues are:

- the increased adoption of our premium membership services by the commercial real estate industry;
- increases in the average monthly subscription price of our premium membership product;
- the increased adoption of out RecentSales services by the commercial real estate industry, and
- our acquisition of BizBuySell in October, 2004, and the increased adoption of our services by the operating business for sale industry.

Our ability to continue to grow our revenues will largely depend on our ability to expand the number of users of *www.LoopNet.com* and *www.BizBuySell.com* and to convince those users to upgrade to our paid services, especially premium membership.

We derive the substantial majority of our revenues from customers that pay monthly fees for a suite of services to market and search for commercial real estate and operating businesses. The fee for our LoopNet premium membership averaged $65.64 per month during the fourth quarter of 2008. The minimum term of a premium membership subscription is one month. We also offer quarterly and annual memberships which are priced and discounted accordingly, and paid in advance for the subscription period. A customer choosing to cancel a discounted annual or quarterly membership will receive a refund based on the number of months the membership was used and charging the customer at the monthly rate rather than at the discounted quarterly or annual rates. We also license our LoopLink product to commercial real estate brokerage firms who pay a monthly, quarterly or annual fee. For our BrokerWorks product at BizBuySell, we charge $49.95 per month. We also charge fees associated with marketing individual businesses listed on BizBuySell. For our RecentSales product, we charge $29.95 per month or $1.95 to $3.95 for an individual transaction.

Revenues from other sources include advertising and lead generation revenues from both our LoopNet and BizBuySell marketplaces, which are recognized ratably over the period in which the advertisement is displayed, provided that no significant obligations remain and collection of the resulting receivable is probable. Advertising rates are dependent on the services provided and the placement of the advertisements. To date, the duration of our advertising commitments has generally averaged two to three months.

The largest component of our expenses is personnel costs. Personnel costs consist of salaries, benefits and incentive compensation for our employees, including commissions for salespeople. These expenses are categorized in our statements of operations based on each employee s principal function.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Accordingly, our actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in this Annual Report, and of those policies, we believe that the accounting policies discussed below involve the greatest degree of complexity and exercise of judgment by our management. Accordingly, we believe the following policies are the most critical for understanding and evaluating our financial condition and results of operations.

Revenue Recognition

We derive the substantial majority of our revenues from premium membership fees for our online marketplaces. We recognize revenues, under the provisions of Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, when persuasive evidence of an agreement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. For the majority of our revenues, payments for LoopNet premium memberships, revenues are recognized immediately on a monthly basis as such accounts are charged. Payments that we receive in advance of services being rendered, such as advance payments on annual and quarterly subscriptions by our premium members, are recorded as deferred revenue and recognized on a straight-line basis over the service period.

Income Taxes

Deferred tax assets and liabilities arise from the differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements, as well as from net operating loss and tax credit carryforwards. Deferred tax amounts are determined by using the tax rates expected to be in effect when the taxes will actually be paid or refunds received, as provided under current tax law. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable, respectively, for the period, plus or minus the change during the period in deferred tax assets and liabilities. As of December 31, 2008, we continued to maintain a valuation allowance of approximately $8.9 million for certain federal and state net operating loss and tax credit carryforwards due to the uncertainty of realization.

At December 31, 2008, we had approximately $31.5 million of federal and $19.7 million of state net operating loss carryforwards available to reduce future taxable income, which will begin to expire in 2017 for federal and 2009 for state purposes, respectively. Under Section 382 of the Internal Revenue Code, the utilization of the net operating loss carryforwards is limited based upon changes in the percentage of our ownership. As a result of prior ownership changes, we were limited to using $3.7 million of net operating losses to offset taxable income in 2008 and estimate that we will be able to utilize approximately $3.7 million in 2009 and each year thereafter until 2011, $2.9 million in 2012 and $2.0 million each year thereafter until 2021.

The difference between our effective income tax rate and the federal statutory rate is primarily a function of the valuation allowance provided against the net deferred tax assets and permanent differences. Our future effective income tax rate will depend on various factors, such as changes in our valuation allowance, pending or future tax law changes including rate changes and the tax benefit from research and development credits, potential limitations on the use of federal and state net operating losses, and state taxes.

On January 1, 2007, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption, if any, is to be reported as an adjustment to opening retained earnings for the year of adoption. The adoption of FIN 48 did not have a material effect on the Company s consolidated financial position or results of operations.

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Website Development Costs

In March, 2000, the Emerging Issues Task Force (EITF) issued EITF 00-2, Accounting for Web Site Development Costs, which addresses whether certain development costs should be capitalized or expensed. Because our current website development costs relate to routine maintenance and operating costs, we expense such costs as incurred.

Stock-Based Compensation

In the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which revises SFAS 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). SFAS 123R requires that share-based payment transactions with employees be recognized in the financial statements based on their value and recognized as compensation expense over the vesting period. Prior to FAS 123R we disclosed the pro forma effects of FAS 123 under the minimum value method. We adopted SFAS 123R effective January 1, 2006, prospectively for new equity awards issued subsequent to January 1, 2006.

Under SFAS 123R we calculated the fair value of stock option grants using the Black-Scholes option-pricing model. The weighted average assumptions used in the Black-Scholes model were 4.6 years for the expected term, 42% for the expected volatility, 2.80% for the risk free rate and 0% for dividend yield for the twelve month period ending December 31, 2008. Future expense amounts for any particular quarterly or annual period could be affected by changes in our assumptions or changes in market conditions.

The weighted average expected option term reflects the application of the simplified method set out in SEC Staff Accounting Bulletin No. 107 (SAB 107), which was issued in March 2005. The SEC subsequently issued SAB 110 in December 2007 extending the opportunity to use the simplified method. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches.

Estimated volatility also reflects the application of SAB 107 interpretive guidance and, accordingly, incorporates historical volatility of similar public entities.

Seasonality and Cyclicality

The commercial real estate market is influenced by annual seasonality factors, as well as by overall economic cycles. The market is large and fragmented, and different segments of the industry are influenced differently by various factors. Broadly speaking, the commercial real estate industry has two major components: tenants leasing space from owners or landlords, and the investment market for buying and selling properties.

We have experienced seasonality in our business in the past, and expect to continue to experience it in the future. While individual geographic markets vary, commercial real estate transaction activity is fairly consistent throughout the year, with the exception of a slow-down during the end-of-year holiday period. The impact that this has had on our business is that the growth rate in the fourth quarter of each year, while positive, has been slower than in the first three quarters of each year. We expect this pattern to continue.

The commercial real estate industry has historically experienced cyclicality. The different segments of the industry, such as office, industrial, retail, multi-family, and others, are influenced differently by different factors, and have historically moved through cycles with different timing. The for lease and for sale components of the market also do not necessarily move on the same timing cycle. During the second half of 2007 and the full year of 2008, the commercial real estate credit markets experienced tightening as a result of the subprime issues affecting the residential real estate credit markets. We believe the credit tightening caused our cancellation rates to exceed our historical levels during 2008, as well as resulted in a lower conversion rate of basic members to premium members.

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Results of Operations

The following table presents our historical operating results as a percentage of revenues for the periods indicated:

	Year Ended December 31, 2006	2007	2008
Revenues	100.0%	100.0%	100.0%
Cost of revenue	11.6	11.4	12.6
Gross profit	88.4	88.6	87.4
Operating expenses:			
Sales and marketing	19.6	20.7	21.9
Technology and product development	9.0	9.1	10.5
General and administrative	16.1	17.3	21.8
Total operating expenses	44.7	47.1	54.2
Income from operations	43.7	41.5	33.2
Interest and other income, net	6.0	7.1	2.3
Income from continuing operations	49.7	48.6	35.5
Income tax expense	17.7	18.8	14.3
Net income	32.0%	29.9%	21.2%

Comparison of Years Ended December 31, 2007 and 2008

Revenues

	Year Ended December 31, 2007	2008	Increase / Decrease	Percent Change
	(Dollars in thousands)			
Revenues	$ 70,729	$ 86,074	$ 15,345	21.7%
Premium members at year-end	88,340	77,283	(11,057)	(12.5%)

The increase in revenues was due primarily to an increase of approximately 17.2% in the average monthly price of a premium membership. We anticipate that revenues may decline in the future as a result of the depressed market conditions in the commercial real estate industry.

Cost of Revenues

Year Ended December 31,

	2007	2008	Increase	Percent Change
	(Dollars in thousands)			
Cost of revenues	$ 8,033	$ 10,858	$ 2,825	35.2%
Percentage of revenues	11.4%	12.6%		

Cost of revenues consists of the expenses associated with the operation of our website, including depreciation of network infrastructure equipment, salaries and benefits of network operations personnel, Internet connectivity and hosting costs. Cost of revenues also includes salaries and benefits expenses associated with our data quality, data import and customer support personnel and credit card and other transaction fees relating to processing customer transactions.

The increase in cost of revenues was due to an increase in salaries and benefit costs related to an increase in the number of data quality, data import and customer support personnel, which was required in order to support our increased property listing and user activity coupled with higher credit card fees due to the growth of revenue. Also contributing to the increased cost of revenues were customer support costs related to the REApplications business.

We expect cost of revenues to potentially increase in absolute dollar amounts and as a percentage of revenue, as we continue to aggregate listing content.

Sales and Marketing

	Year Ended December 31,			
	2007	2008	Increase	Percent Change
	(Dollars in thousands)			
Sales and marketing	$ 14,667	$ 18,825	$ 4,158	28.3%
Percentage of revenues	20.7%	21.9%		

Sales and marketing expenses consist of the compensation and associated costs for sales and marketing personnel, advertising expenses as well as public relations and other promotional activities.

The increase in sales and marketing expenses was due largely to an increase in the number of sales personnel and increased commissions paid as a result of growth in our revenues. Additionally, advertising costs were higher, primarily to attract new members to our online marketplace. Also contributing to the increase was higher stock-based compensation, which increased to $2,198,000 in 2008 compared to $1,358,000 in 2007.

We expect sales and marketing expenses to potentially increase in absolute dollar amounts and as a percentage of revenues, as we continue to expand our marketing program to attract and retain premium members and launch and support new products and services.

Technology and Product Development

	Year Ended December 31,			
	2007	2008	Increase	Percent Change
	(Dollars in thousands)			
Technology and product development	$ 6,427	$ 9,075	$ 2,648	41.2%
Percentage of revenues	9.1%	10.5%		

Technology and product development costs include expenses for the research and development of new products and services, as well as improvements to and maintenance of existing products and services.

The increase in technology and product development expenses was due primarily to increases in salaries and related costs associated with an increase in headcount to assist in the launch of new product enhancements and services and the maintenance of our existing services. Also contributing to the increase was higher stock-based compensation, which increased to $1,311,000 in 2008 compared to $600,000 in 2007.

We expect technology and product development expenses to potentially increase in absolute dollar amounts and as a percentage of revenues as we continue to build the infrastructure required to support the development of new products and services.

General and Administrative

	Year Ended December 31,			
	2007	**2008**	**Increase**	**Percent Change**
	(Dollars in thousands)			
General and administrative	$ 12,253	$ 18,739	$ 6,486	52.9%
Percentage of revenues	17.3%	21.8%		

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

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The increase in general and administrative expenses was due primarily to higher office rent associated with our growth in personnel, increased salaries and higher legal fees associated with litigation related matters. Also contributing to the increase was higher stock-based compensation, which increased to $1,855,000 in 2008 compared to $1,180,000 in 2007

We expect general and administrative expenses to potentially increase in absolute dollar amounts and as a percentage of revenues as we continue to incur additional litigation related costs.

Stock-Based Compensation

Expenses associated with stock-based compensation increased by $2,439,000 to $5,934,000 in the twelve months ended December 31, 2008 from $3,495,000 in the twelve months ended December 31, 2007. The increase was due primarily to stock option and restricted stock unit grants for employees hired in 2008 and additional grants to existing employees.

Stock-based compensation has been allocated as follows:

	Year Ended December 31,			
	2007	2008	Increase	Percent Change
Cost of revenue	$ 357	$ 570	$ 213	59.7%
Selling and marketing	1,358	2,198	840	61.9%
Technology and product development	600	1,311	711	118.5%
General and administrative	1,180	1,855	675	57.2%
Total	$ 3,495	$ 5,934	$ 2,439	69.8%

Interest Income

Interest and other income decreased by $3,048,000 to $1,998,000 for the year ended December 31, 2008, from $5,046,000 for the year ended December 31, 2007. This decrease was due to lower cash equivalents and short-term investments and lower interest rates. As of December 31, 2008, we held $64,587,000 in cash, cash equivalents and short-term investments, compared to $107,889,000 in cash, cash equivalents and short-term investments as of December 31, 2007.

Income Taxes

We recorded a provision for income taxes of $12,297,000 million for the year ended December 31, 2008 based upon a 40.2% effective tax rate.

Comparison of Years Ended December 31, 2006 and 2007

Revenues

Year Ended December 31,

	2006	2007	Increase	Percent Change
	(Dollars in thousands)			
Revenues	$ 48,411	$ 70,729	$ 22,318	46.1%
Premium members at year-end	78,952	88,340	9,388	11.9%

The increase in revenues was due primarily to increased adoption of our premium membership product, as well as an increase of approximately 15.9% in the average monthly price of a premium membership.

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Cost of Revenues

	Year Ended December 31,			
	2006	2007	Increase	Percent Change
	(Dollars in thousands)			
Cost of revenues	$ 5,599	$ 8,033	$ 2,434	43.5%
Percentage of revenues	11.6%	11.4%		

Cost of revenues consists of the expenses associated with the operation of our website, including depreciation of network infrastructure equipment, salaries and benefits of network operations personnel, Internet connectivity and hosting costs. Cost of revenues also includes salaries and benefits expenses associated with our data quality, data import and customer support personnel and credit card and other transaction fees relating to processing customer transactions.

The increase in cost of revenues was due to an increase in salaries and benefit costs related to an increase in the number of data quality, data import and customer support personnel, which was required in order to support our increased property listing and user activity. Also contributing to the increased cost of revenues was higher credit card fees due to the growth in revenues.

Sales and Marketing

	Year Ended December 31,			
	2006	2007	Increase	Percent Change
	(Dollars in thousands)			
Sales and marketing	$ 9,506	$ 14,667	$ 5,161	54.3%
Percentage of revenues	19.6%	20.7%		

Sales and marketing expenses consist of the compensation and associated costs for sales and marketing personnel, advertising expenses as well as public relations and other promotional activities.

The increase in sales and marketing expenses was due largely to an increase in the number of sales personnel and increased commissions paid as a result of growth in our revenues. Additionally, advertising costs were higher, primarily to attract new members to our online marketplace. Also contributing to the increase was higher stock-based compensation, which increased to $1,358,000 in 2007 compared to $686,000 in 2006.

Technology and Product Development

	Year Ended December 31,			
	2006	2007	Increase	Percent Change
	(Dollars in thousands)			

Technology and product development	$ 4,341	$ 6,427	$ 2,086	48.1%
Percentage of revenues	9.0%	9.1%		

Technology and product development costs include expenses for the research and development of new products and services, as well as improvements to and maintenance of existing products and services.

The increase in technology and product development expenses was due primarily to increases in salaries and related costs associated with an increase in headcount to assist in the launch of new products and services and the maintenance of our existing services.

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General and Administrative

	Year Ended December 31,			
	2006	2007	Increase	Percent Change
	(Dollars in thousands)			
General and administrative	$ 7,803	$ 12,253	$ 4,450	57.0%
Percentage of revenues	16.1%	17.3%		

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

The increase in general and administrative expenses was due primarily to higher office rent associated with our growth in personnel, increased salaries and higher professional fees and directors and officers liability insurance premiums associated with being a public company. Also contributing to the increase was higher stock-based compensation, which increased to $1,180,000 in 2007 compared to $421,000 in 2006

Stock-Based Compensation

Expenses associated with stock-based compensation increased by $2,042,000 to $3,495,000 in the twelve months ended December 31, 2007 from $1,453,000 in the twelve months ended December 31, 2006. The increase was due primarily to option grants for employees hired in 2007 and additional option grants to existing employees.

Stock-based compensation has been allocated as follows:

	Year Ended December 31,			
	2006	2007	Increase/ (Decrease)	Percent Change
Cost of revenue	$ 151	$ 357	$ 206	136.4%
Selling and marketing	686	1,358	672	98.0%
Technology and product development	195	600	405	207.7%
General and administrative	421	1,180	759	180.3%
Total	$ 1,453	$ 3,495	$ 2,042	140.5%

Interest Income

Interest and other income increased by $2,163,000 to $5,046,000 for the year ended December 31, 2007, from $2,883,000 for the year ended December 31, 2006. This increase was primarily due to a higher average cash balance. As of December 31, 2007, we held $107,889,000 in cash, cash equivalents and short-term investments, compared to $89,028,000 in cash, cash equivalents and short-term investments as of December 31, 2006.

Income Taxes

We recorded a provision for income taxes of $13,268,000 for the year ended December 31, 2007 based upon a 38.6% effective tax rate.

Quarterly Consolidated Statements of Income Data

The following tables present the unaudited consolidated statements of income data for the eight quarters ended December 31, 2008 in dollars and as a percentage of revenues. This quarterly information has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of our management, reflects all adjustments necessary for a fair representation of the information for the periods presented. This data should be read in conjunction with our audited consolidated financial statements and the related notes included in this Annual

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Report on Form 10-K. Operating results for any quarter apply to that quarter only and are not necessarily indicative of results for any future period.

	Quarter Ended							
	Mar. 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Mar. 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008
	(In thousands, except per share data)							
Revenues	$ 15,515	$ 17,022	$ 18,627	$ 19,565	$ 20,590	$ 22,027	$ 22,403	$ 21,054
Cost of revenue(1)	1,780	1,874	2,072	2,308	2,414	2,704	2,876	2,864
Gross profit	13,735	15,148	16,555	17,257	18,176	19,323	19,527	18,190
Operating expenses(1):								
Sales and marketing	3,259	3,577	3,916	3,914	4,841	4,822	4,711	4,450
Technology and product development	1,350	1,569	1,699	1,809	1,993	2,355	2,301	2,427
General and administrative	2,569	2,849	3,211	3,623	4,056	4,949	5,227	4,507
Total operating expenses	7,178	7,995	8,826	9,346	10,890	12,126	12,239	11,384
Income from operations	6,557	7,153	7,729	7,911	7,286	7,197	7,288	6,806
Interest and other income, net	1,193	1,313	1,242	1,298	975	478	459	85
Income from continuing operations	7,750	8,466	8,971	9,209	8,261	7,675	7,747	6,891
Income tax expense	3,201	3,367	3,193	3,508	3,407	3,141	2,927	2,821
Net income	$ 4,549	$ 5,099	$ 5,778	$ 5,701	$ 4,854	$ 4,534	$ 4,820	$ 4,070
Net income per share								
Basic	$ 0.12	$ 0.13						