HOMESTORE INC
Form 10-K
March 11, 2005

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

Form 10-K

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

For the fiscal year ended December 31, 2004

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: 000-26659

Homestore, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware *(State or Other Jurisdiction of Incorporation or Organization)*	**95-4438337** *(I.R.S. Employer Identification No.)*
30700 Russell Ranch Road **Westlake Village, California** *(Address of Principal Executive Offices)*	**91362** *(Zip Code)*

Registrant s telephone number, including area code:
(805) 557-2300
Securities Registered Pursuant to Section 12(b) of the Act:
None
Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, par value $.001 per share
Warrants to purchase Common Stock, par value $.001 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2). Yes þ No o

Aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2004*	$500,696,146

Number of shares of common stock outstanding as of February 28, 2005. 147,097,528

* Based on the closing price of the common stock of $3.99 per share on that date, as reported on The NASDAQ National Market and, for purposes of this computation only, the assumption that all of the registrant s directors, executive officers and beneficial owners of 10% or more of the registrant s common stock are affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

In accordance with General Instruction G(3) to Form 10-K, certain information in the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission relating to the registrant s 2005 Annual Meeting of Stockholders is incorporated by reference into Part III.

HOMESTORE, INC.
FORM 10-K
For the Fiscal Year Ended December 31, 2004
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This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on our current expectations, estimates and projections about our industry, beliefs, and certain assumptions made by us. Words such as believes, anticipates, estimates, expects, projections, may, potentia continue and words of similar import constitute forward-looking statements. The forward-looking statements contained in this report involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by these statements. These factors include those listed under the Risk Factors section contained in Item 1, Business, and elsewhere in this Form 10-K, and the other documents we file with the Securities and Exchange Commission, or SEC, including our reports on Form 8-K and Form 10-Q, and any amendments thereto. Other unknown or unpredictable factors also could have material adverse effects on our future results. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date of this Annual Report. We cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not place undue reliance on these forward-looking statements. Finally, we expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

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PART I

Item 1. *Business*

Homestore, Inc. (Homestore or we) has created an online service that is the leading consumer destination on the Internet for home and real estate-related information, based on the number of visitors, time spent on our websites and number of property listings. We provide a wide variety of information and tools for consumers and are a leading supplier of online media and technology solutions for real estate industry professionals, advertisers and providers of home and real estate-related products and services.

Our consumer websites include REALTOR.com®, HomeBuilder.com™, RENTNET.com®, SeniorHousingNet® and Homestore.com®. We also provide software and related services to real estate industry professionals and provide printed advertising and home plan products to pre-move and post-move consumers.

The emergence and acceptance of the Internet has fundamentally changed the way that consumers and businesses communicate, obtain information, purchase goods and services and transact business. The real estate industry and home services market is particularly well suited for the Internet because of its complexity, fragmented nature, and reliance on the exchange of information. Real estate professionals currently spend almost nine billion dollars per year on marketing their products and services to apartment hunters, homebuyers and homesellers. Traditional methods of marketing for real estate professionals include classified advertisements, print media and other offline sources. These methods do not allow for interactivity and may use data that is incomplete or outdated. Additionally, these methods reach consumers only within specific local markets and are often distributed on a weekly or less frequent basis. These traditional marketing sources also lack content that can be searched based on specific detailed criteria, and do not have the ability to offer two-way communication. The Internet overcomes many of the limitations of traditional real estate marketing methods by providing consumers with access to information on market supply and demand and enabling consumers to search for real estate information based on specified, detailed criteria, without geographical limitations. The Internet offers a compelling means for consumers, real estate professionals, home builders, property managers and owners, and ancillary service providers to communicate and transact business together.

We were incorporated in the State of Delaware in 1993 under the name of InfoTouch Corporation, or InfoTouch. In February 1999, we changed our corporate name to Homestore.com®, Inc. In May 2002, we changed our name to Homestore, Inc. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for a further description of our history, including information regarding the difficult challenges we have faced since our discovery of accounting irregularities in late 2001. Our corporate headquarters are in Westlake Village, California.

Our Vision

Our vision statement incorporates the provision of products and services to consumers, real estate professionals and advertisers prior to, during and immediately following a move:

We create media and technology solutions
to promote and connect
Real Estate Professionals and other Advertisers
to Consumers
before, during and after a move.

Our Operating Segments

As of the beginning of 2003, we realigned our business to ensure that each of our products and services directly support this vision. We operate under three business segments: Media Services, Software and Print, which for the year ended December 31, 2004 represented approximately 69%, 8% and 23% of our revenue, respectively.

Media Services. Media Services consists of products and services that promote and connect real estate professionals to consumers through our REALTOR.com®, HomeBuilder.com™, RENTNET.com®, SeniorHousingNet®.com and Homestore.com® websites. Our revenue is derived from a variety of advertising services, including enhanced listings, banner ads, sponsorships, integrated content and text-based links and rich media applications which we sell to those businesses interested in reaching our targeted audience.

Software. Software includes our customer relationship management applications for REALTORS® offered through our Top Producer® business. This segment previously included Wyldfyre™ and Computers for Tracts, which were both sold in the fourth quarter of 2004 and are reflected in discontinued operations for all periods presented in this Form 10-K.

Print. Print incorporates the targeted, new-mover advertising products provided by our Welcome Wagon® subsidiary, and sales of new home plans and related magazines through our Homestore Plans and Publications businesses.

Key Characteristics

We believe there are several characteristics of our business that help distinguish Homestore from other real estate media and technology companies. These characteristics include the strength and depth of our real estate industry relationships, the high volume of visitors to our websites and the technology that powers our websites and applications.

Industry Relationships

To provide consumers with timely and comprehensive real estate listings, access to real estate professionals and other home and real estate-related information and resources, we have established relationships with key industry participants. These participants include real estate market leaders such as the National Association of REALTORS®, or NAR; the National Association of Home Builders, or NAHB; hundreds of Multiple Listing Services (MLS); the Manufactured Housing Institute, or MHI; and leading real estate franchisors, including the six largest franchises, brokers, builders and apartment owners and managers. Under our agreement with NAR, we operate NAR s official website, REALTOR.com®. Under our agreement with NAHB, we operate NAHB s official website, HomeBuilder.com™. Under our agreements with NAR, NAHB, and MHI we receive preferential promotion in their marketing activities. REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of NAR and subscribe to its code of ethics.

National Association of REALTORS®. The NAR is the largest trade association in the United States that represents real estate professionals. NAR consists of residential and commercial real estate professionals, including brokers, agents, property managers, appraisers, counselors and others engaged in all aspects of the real estate industry. NAR had approximately 1.1 million members as of December 2004.

National Association of Home Builders. The NAHB is the second-largest real estate trade association in the United States. As of December 31, 2004, NAHB had approximately 220,000 members. Approximately one-third of NAHB s members are home builders and/or remodelers and the remainder work in closely related fields within the residential real estate industry such as mortgage, finance, building products and building services, including subcontractors.

Manufactured Housing Institute. The MHI is a nonprofit national trade association representing all segments of the manufactured housing industry, including manufactured home producers, retailers, developers, community owners and managers, suppliers, insurers and financial service providers. As of December 31, 2004, the MHI had approximately 315 corporate members, and 53 state associated members.

Multiple Listing Services. MLSs operate networks that provide real estate professionals with listings of properties for sale and are typically regulated by a governing body of local brokers and/or agents. There are approximately 900 MLSs nationwide that aggregate local property listings by geographic location.

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Leading Consumer Websites

The Homestore network of websites includes REALTOR.com®, the official site of NAR; HomeBuilder.com™, the official new home listing site of NAHB; RENTNET.com®, an apartment, corporate housing and self-storage resource; SeniorHousingNet®.com, a comprehensive resource for seniors; and Homestore.com®, a home information resource site with an emphasis on content related to mortgage financing, moving and storage, and home and garden activities.

Collectively, the Homestore network of websites attracts approximately 9 million unique users per month, according to January 2005 data obtained from third-party Internet traffic auditor comScore Media Metrix. January is seasonally one of the highest traffic months for each of our sites. The typical visitor to the Homestore network visits us more than two times per month and spends approximately 33 minutes per month on our sites. Individually, REALTOR.com®, our flagship site, is the Internet s No. 1 real estate site with approximately 6.3 million unique users recorded in January 2005, according to comScore. REALTOR.com® visitors spend a great deal of time browsing home listings approximately 45 minutes per unique user in a typical month. HomeBuilder.com™ is the No. 1 Internet destination for gathering information and contacting home builders related to newly constructed and to-be-built homes, having attracted approximately 692,000 unique users in January 2005. RENTNET.com® is a leading apartment website, having attracted approximately 1.5 million unique users in January 2005. Homestore.com®, which comprises all of our consumer traffic not directed to one of our three largest property sites, attracted approximately 2.8 million unique users in January 2005.

We are the exclusive provider of national property listings across America Online, or AOL, The Microsoft Network, or MSN, Netscape, CompuServe and Digital City and are the exclusive provider of new homes and apartments listings on YAHOO!. In addition, we distribute moving and home and garden content for a home and real-estate related channel on AOL and provide AOL s over 22.7 million domestic subscribers an online area to find home-related information, tools and services. Other significant portal relationships for the Homestore network include The Excite Network, Inc., iWon.com, Internet Broadcast Systems, Inc. and its websites for 61 local network-affiliated TV stations, and United Online through its NetZero and Juno brands.

REALTOR.com®. The REALTOR.com® website offers consumers a comprehensive suite of services, tools and content for all aspects of the residential real estate transaction. The REALTOR.com® website includes a directory of approximately 1.1 million REALTORS® to help guide buyers and sellers through the real estate transaction process. For buyers, there is a searchable database of approximately 2.0 million existing homes for sale. For sellers, there are tools and information about understanding the value of their home, preparing the home for sale, listing and advertising the home and completing the sale. We receive listing content from over 900 MLSs across the United States. Our property listings typically provide information that is more detailed and timely than the information included in other media channels, such as newspaper classified advertisements and print magazines. In addition, we offer consumers information and tools on mortgages, home affordability, the offer process, applying for a loan, closing the purchase, planning the move and neighborhood profiles.

HomeBuilder.com™. The HomeBuilder.com™ website offers consumers a comprehensive resource for information on builders as well as information on newly built homes and housing plans. We aggregate information on more than 66,000 new and model homes for sale throughout more than 6,500 new home communities and planned developments throughout the United States. Homebuyers can browse through our database under three types of search queries: new homes, builders and manufactured homes. In addition to offering this information, we also provide consumers with community profiles and the ability to send detailed requests to builders via electronic mail, telephone or fax for further information on particular properties.

RENTNET.com®. The RENTNET.com® website provides consumers with a large and comprehensive rental housing database. As of December 31, 2004, our rental housing database consisted of more than 40,000 properties, representing approximately 5.5 million apartment units located in more than 5,500 cities nationwide. Our database also includes corporate housing and self storage listings. We also provide consumers with information relating to moving services, renter s insurance and neighborhood profiles. Additionally, consumers can create personalized moving checklists and receive email reminders.

SeniorHousingNet®.com. Our Senior Housing website offers a database of senior housing listings, independent living, assisted living, nursing homes, continuing care and alzheimer s care. The channel also contains content, tools and guides to assist users in selecting suitable housing and care types, together with information on health and wellness.

Homestore.com®. As a complete home-information resource, Homestore.com® offers a wide range of content on a variety of home related topics including mortgage financing, moving, and home and garden. The site utilizes content prepared by our in-house editorial staff as well as information obtained and displayed through third-party relationships. The Homestore.com® site is organized into three primary channels:

Homestore Home Finance. Our Home Finance channel contains information and decision support tools that help consumers understand and satisfy their home financing and mortgage needs. A variety of content, tools, and interactive guides are available to help consumers with mortgages, loans, credit, insurance, legal matters and taxes. Additionally, consumers have access to our Find a Lender directory, which provides access to a variety of lending professionals.

Homestore Moving. Our Moving channel contains content, tools and interactive guides for consumers moving to new homes or relocating to another community. We also offer a database of self-serve storage locations across the country. These resources provide movers with custom moving quotes and other resources necessary for making moving decisions, such as salary calculators, school reports and neighborhood information.

Homestore Home & Garden. Our Home & Garden channel is an online resource for consumers seeking to make improvements to their existing home, including remodeling, home improvement, landscaping and home maintenance needs. It provides an online resource for consumers seeking decorating ideas and information. The channel includes information for planning, budgeting and visualizing options, as well as specific advice on a room-by-room basis. The channel is designed to help consumers locate qualified professionals as well as provide them with do-it-yourself information.

Technology

We seek to maintain and enhance our market position with consumers and real estate professionals by building proprietary systems and consumer features into our websites, such as search engines for real estate listings and the technologies used to aggregate real estate content. We regard many elements of our websites and underlying technologies as proprietary, and we attempt to protect these elements and underlying technologies by relying on trademark, service mark, patent, copyright and trade secret laws, restrictions on disclosure and other methods. See Intellectual Property.

Our Software segment business has also developed proprietary applications to enhance the productivity and profitability of real estate professionals. We are continually attempting to add functionality and features to our applications, including integration with our leading consumer websites. We believe that our ability to assist real estate professionals in managing relationships with their customers enables us to better distinguish the value of our media properties.

Products and Services

Most of our revenue, including a substantial majority of our Media Services and Print segments, is derived from subscription-based advertising services. The revenue of our Software segment is derived primarily from subscriptions to an online contact management software service. See Note 13, Segment Information, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K for financial information by segment. Our sales force consists of a combination of internal phone-based associates and field sales personnel.

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Media Services Segment

Our Media Services segment provides marketing and website solutions that allow real estate professionals to reach and connect with a highly targeted potential customer audience represented by the consumer traffic on our websites. We do this by allowing our customers to personalize the personal, corporate and property listing information contained on our websites and by allowing our customers to connect their personal or corporate website directly to our database of property information, our professional directories and to traditional Internet advertising products such as banner ads.

Our services enable real estate professionals to manage their online content and branding presence through a personal or corporate website, and to use our listing enhancements such as multiple photos; virtual tours and printable brochures. We also enable real estate professionals to market themselves and their properties directly to potential buyers whose search criteria match a set of listing criteria specified by the real estate professional. We also design, host, and maintain personal and corporate websites for real estate professionals.

Because of our focus on home and real estate-related information, we believe our websites draw an attractive national target audience for advertisers and providers of home-related products and services. We also believe that because our websites attract a significant number of consumers that are contemplating a real estate transaction or a move, we provide businesses such as mortgage companies, home improvement retailers and moving service providers with an efficient way to find and communicate with their potential customers.

During 2003, we changed the way we offer many of our services to customers, including a particularly significant change to our REALTOR® service offering. Historically, we required our REALTOR® customers to purchase a templated website, or homepage, in order to connect themselves to their listings displayed on REALTOR.com®. These templated website and listing enhancements were generally offered at the same price in different markets and did not provide for differential pricing based on the advertising value delivered to the customer. Beginning in the second quarter of 2003, we began to offer these services under a more traditional media model where pricing is dependent upon geographic market, placement, content and length or quantity of the media run. This change was intended to permit us to compete more effectively with traditional offline media products. Customers may still purchase our templated website service, but it is no longer required in order to benefit from the media value of REALTOR.com®. Our implementation of these changes was completed during the second quarter of 2004.

We offer the following services through our Media Services segment:

Classified Advertising. We offer a number of classified advertising opportunities throughout our network of websites, primarily in the form of property listing enhancements on REALTOR.com®, HomeBuilder.com™, and RENTNET.com® websites.

Enhanced Listings. A major service offering for real estate agents and brokers is the enhancement of property listings. As the official website of the NAR, we present basic MLS property listings on the REALTOR.com® website at no charge to NAR members. For a fee we offer our professional customers the ability to enhance their listings by adding their own personal promotion in the forms of custom copy, photographs, text effects, links to their homepage and more.

Virtual Tours. As a separate listing enhancement product to the REALTOR.com® suite of services, Homestore offers two virtual tour solutions. Hometour360 allows customers to create, host and distribute media rich virtual tours powered by industry leading image technologies IPIX and iseemedia. The new PicturePath Link solution allows other virtual tour products, purchased by our customers, to be distributed to REALTOR.com® in their full featured format.

Online Brochures. Our primary service for rental, corporate housing and senior housing property owners and managers is an online brochure displayed on our RENTNET.com® website. We also offer a similar service to our home builder customers for display on our HomeBuilder.com™ website. Our online brochures include property photos, floor plan images, virtual tours, unit descriptions, community descriptions, interactive mapping, driving directions and links to property owners or managers

websites. A variety of enhancements are also available to assist in increasing the visibility of specific properties to our online audience.

Display Advertising. A variety of online display advertising in the form of banners, vertical skyscraper ads, and other Internet Advertising Bureau, or IAB, standard ad sizes can be purchased for placement throughout the Homestore network of websites by companies or individuals wishing to reach the largest and most targeted real estate-oriented audience. While companies currently make up the majority of our display advertising customers, we also offer a number of unique display advertising opportunities to individual real estate professionals to brand themselves online to consumers in their local market. Advertisers can also purchase custom advertising units on our websites, including text-based links and rich media products. We offer advertisers branding and lead generation opportunities on both fixed and variable bases, with most of our advertising relationships tied to audience size.

*Featured Homes*tm. Featured Homestm allows our REALTOR® customers to more prominently display their property listings on the REALTOR.com® website during geographically targeted property searches by consumers. Properties featured through the Featured Homestm product are viewed first in any search of their respective zip codes.

*Featured Agent*tm. Featured Agenttm allows agents to promote themselves and their services on REALTOR.com® to a geographically targeted real estate audience.

*Featured Company*tm. Featured Companytm allows brokers to promote themselves and their services to a geographically targeted real estate audience on REALTOR.com®.

*Featured Builder*tm. Featured Buildertm allows builders to promote themselves and their services to a geographically targeted real estate audience on HomeBuilder.comtm.

Sponsorships. Sponsorships allow advertisers to maximize their exposure on our websites by featuring fixed buttons or other prominent placements on certain pages on our websites. These advertisements present users with the opportunity to click-through directly to the advertiser s site. Sponsorships may also include other advertising components such as content or online advertisements.

Directory Listings. Advertisers can purchase placement in our online directories. Our network of websites includes directories of REALTORS®, home builders, lenders, and self-service storage facilities. We believe our directory services offer advertisers the opportunity to reach qualified consumers based upon the targeted audience that visits our websites and are a cost-effective way for professionals to generate leads from online consumers.

Websites. Our website service is comprised of templated and custom websites for individuals as well as companies. We build websites based either on an á la carte features and functionality basis or bundled with pre-selected features based on industry segments, including websites designed specifically for REALTORS®, brokers, builders and manufactured housing retailers. For customers seeking websites with specialized features and expanded functionality, we design and build customized websites. In addition to the design and set-up of the websites, we also offer hosting and maintenance services.

*One Place*tm. One Placetm is a suite of services, including a website, that integrates with an interactive voice response system that is linked to a pager network. One Placetm enables REALTORS® to be paged when a potential homebuyer or homeseller submits an inquiry about a specific property listing. Additionally, if a prospective buyer contacts the REALTOR® after viewing a for sale sign, the interactive voice response system will provide the consumer with details about the property and then page the REALTOR® with a notification of the caller s telephone number and the property listing for which the consumer has inquired.

Software Segment

Our software business now consists solely of Top Producer®, which provides software solutions and related services to real estate professionals. WyldFyre and CFT, two other businesses formerly in this segment, were sold in the fourth quarter of 2004 and their results have been classified as discontinued operations for all periods presented.

Top Producer® is the leading client management and marketing software specific to real estate agents. Top Producer® s line of desktop and web-based applications features client management, appointment and task scheduling, Internet lead distribution and follow-up, prospecting automation, comparative market analysis, customer presentations and mobile data synchronization for Palm devices and notebook computers. Products are co-branded for some of the country s largest franchise brands, such as RE/ MAX, Keller Williams, and GMAC. This was sold exclusively as a desktop application until the fourth quarter of 2002. Our historical Top Producer® desktop products have an installed customer base of more than 100,000 agents. Top Producer® is now offered as an online application that is purchased through a monthly or annual subscription.

Print Segment

Welcome Wagon®. Welcome Wagon® offers local and national merchants the opportunity to reach movers through targeted direct mail services.

New Mover Program. The New Mover Program integrates local merchant advertiser information into a welcome gift delivered through the mail to new homeowners shortly after their move. The welcome gift contains a customized neighborhood address book with exclusive merchant advertiser listings as well as coupons and special offers from local advertisers. Additionally, local advertisers receive the names and contact information of the new homeowners in their selected area that have received the welcome gift. This allows local merchants the opportunity to continue to build their relationship with these new homeowners through their own direct marketing initiatives. This service is sold to merchants on an annual subscription basis. Additionally, Welcome Wagon® offers local merchants solo marketing opportunities through its Pinpoint Mail product, which is sold on a per mailing basis.

Early Advantage. Launched in the fourth quarter of 2004, Early Advantage is a shared direct mail product for advertisers to reach new movers at their existing addresses prior to their actual move.

Homestore Plans and Publications. Homestore Plans and Publications offers both consumers and building professionals the ability to browse, select, modify and purchase new home designs and project plans from one of the largest selections of home plans and project plans available. Homestore Plans and Publications has business relationships with many designers that provide us the right to sell the designers home plans directly to consumers and building professionals. These plans are sold through magazines that are distributed at leading retailers and newsstands nationwide and through our website, Homeplans.com. The Internet has become an increasingly important channel of distribution for the sale of home plans, and our Home Plans website is one of the most heavily trafficked websites in the home plans category, distributing its home plan content through approximately 300 affiliate partner sites.

Competition

We face competition in each segment of our business.

Media Services Segment

We compete with a variety of online companies and websites providing real estate content that sell classified advertising opportunities to real estate professionals and sell display advertising opportunities to other advertisers, including real estate professionals, seeking to reach consumers interested in products and services related to the home and real estate. We also compete with websites that attract consumers by offering rebates for home purchases or rental leases, and then charge the real estate professional who performed the transaction a referral fee for the introduction. However, these sites generally have a limited amount of real estate content and an even more limited directory of qualified REALTORS®. Other online competitive models include pure lead generation models and paid search models.

Our primary competitors for online real estate advertising dollars include InterActiveCorp, HouseValues.com, AgentConnect.com (a division of Next Phase Media, Inc.), and HomeGain.com, Inc. In

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addition, RENTNET.com® faces competition from ApartmentGuide.com, Rent.com, ForRent.com and Apartments.com, and our HomeBuilder.com™ website competes directly with NewHomeGuide.com and NewHomeSource.com. Our Homestore.com® website also faces competition from general interest consumer websites that offer home, moving and finance content, including MonsterMoving.com (a division of Monster Worldwide, Inc.) and ServiceMagic, Inc. (a division of InterActiveCorp).

Newspapers and home/apartment guide publications are the two primary offline competitors to our media offerings. We compete with newspapers and home/apartment guide publications for the advertising dollars spent by real estate professionals to advertise their offerings. Although approximately 74% of all homebuyers use the Internet to search for homes (according to the NAR), real estate professionals currently spend only a small percentage of their marketing budget to display their listings on the Internet. In addition, newspapers and the publishers of home/apartments guides, including Classified Ventures, Inc., PRIMEDIA Inc., and Network Communications Inc., have extended their media offerings to include an Internet presence. We must continue to work to shift more real estate advertising dollars online if we are to successfully compete with newspapers and real estate guides.

Software Segment

Our Top Producer® business faces competition from Fidelity National Information Solutions, Inc. which offers competing solutions to real estate professionals. Top Producer® also competes with horizontal Customer Relationship Management offerings such as: Microsoft Corporation s Outlook solution, Best Software Inc. s ACT! solution, and FrontRange Solution Inc. s GoldMine product. Some providers of real estate website solutions, such as A La Mode, Inc., are also offering contact management features which compete with products from Top Producer®. Certain Internet media companies such as HomeGain.com, Inc. and HouseValues, Inc. are providing drip marketing solutions that incorporate aspects of lead management, which, over time, could pose a competitive threat to Top Producer®.

Print Segment

Welcome Wagon®. Our Welcome Wagon® business competes with numerous direct marketing companies that offer advertising solutions to local and national merchants. Competitors include Imagitas, Inc., ADVO Inc., Valpak Direct Marketing Systems, Inc., Pennysaver and MoneyMailer, LLC. These competitors, like Welcome Wagon®, target homeowners at various stages of the home ownership life cycle with advertising from third parties.

Homestore Plans and Publications. Our Plans and Publications business faces direct competition from several large publishing companies that print multiple publications, including home plan publications. Our major competitors include Hanley-Wood, LLC and The Garlinghouse Company. We also face competition from many smaller companies offering home plans for sale over the Internet, such as dreamhomesource.com and coolhouseplans.com.

Infrastructure and Technology

Our websites are designed to provide fast, secure and reliable high-quality access to our services, while minimizing the capital investment needed for our computer systems. We have made, and expect to continue to make, technological improvements designed to reduce costs and increase the efficiency of our systems. We expect that enhancements to our family of websites, and to our products and services, will come from internally and externally developed technologies.

Our systems supporting our websites must accommodate a high volume of user traffic, store a large number of listings and related data, process a significant number of user searches and deliver frequently updated information. Any significant increases in utilization of these services could strain the capacity of our computers, causing slower response times or outages. We host our Homestore.com®, REALTOR.com®, HomeBuilder.com™, RENTNET.com®, SeniorHousingNet®.com and custom broker web pages and the on-line subscription product for Top Producer® in Thousand Oaks, California. Because substantially all of our computer and communications hardware for each of our websites is located at this location, our systems are vulnerable to fire, floods, telecommunications failures, break-ins, earthquakes and other force majeure events. Our operations are dependent on our ability to protect our systems from such occurrences. See Risk Factors Internet Industry Risks for a more complete description of the risks related to our computer infrastructure and technology.

Intellectual Property

We regard substantial elements of our websites and underlying technology as proprietary. We attempt to protect this intellectual property by relying on a combination of trademark, service mark, patent, copyright and trade secret laws, restrictions on disclosure and other methods.

Despite our precautions, our intellectual property is subject to a number of risks that may materially adversely affect our business, including but not limited to:

- it may be possible for a third party to copy or otherwise obtain and use our proprietary information without authorization or to develop similar technology independently;
- NAR could lose the use of the trademark REALTOR® or we could lose the use of such trademark or the REALTOR.com® domain name, or be unable to protect the other trademarks or website addresses that are important to our business, and therefore would need to devote substantial resources toward developing an independent brand identity;
- we could be subject to litigation with respect to our intellectual property rights;
- we may be required to license additional technology and information from others, which could require substantial expenditures by us; and
- legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and continue to evolve, and we can give no assurance regarding our ability to protect our intellectual property and other proprietary rights.

See Risk Factors Risks Related to Our Business for a more complete description of the risks related to our intellectual property.

Seasonality

Our Welcome Wagon® business in our Print segment is affected by seasonality. Our revenue in this segment is significantly impacted by the number of household moves in the United States each year. Due to weather and school calendars, a disproportionate percentage of moves take place in the second and third calendar quarters than in the first and fourth quarters. As a result, we distribute a larger number of our Welcome Wagon® services in the second and third quarters each year. None of our other businesses are exposed to this degree of seasonality primarily due to the fact that much of our business in the Media and Software segments is based on annual contracts.

Employees

As of December 31, 2004, we had approximately 1,456 full-time equivalent employees. We consider our relations with our employees to be good. We have never had a work stoppage, and no employee is represented by collective bargaining agreements. We believe that our future success will depend in part on our ability to attract, integrate, retain and motivate highly qualified personnel and upon the continued service of our senior management and key technical personnel. See Risk Factors Risks Related to Our Business.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as well as our proxy statements and other information, with the Securities and Exchange Commission, or SEC. In most cases, those documents are available, without charge, on our website at *http://ir.homestore.com* as soon as reasonably practicable after they are filed electronically with the SEC.

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Copies are also available, without charge, from Homestore, Inc., Investor Relations, 30700 Russell Ranch Road, Westlake Village, CA 91362. You may also read and copy these documents at the SEC s public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549 under our SEC file number (000-26659), and you may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. In most cases, these documents are available over the Internet from the SEC s web site at http://www.sec.gov.

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RISK FACTORS

The following risk factors and other information included or incorporated by reference in this Form 10-K should be considered carefully. 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 following risks actually occur, our business, financial condition and operating results could be materially adversely affected.

Risks Related to our Business

We have a history of net losses and expect net losses for the foreseeable future.

Except for the first quarter of 2003 and the fourth quarter of 2004, for which we experienced a net profit due to one-time, non-operating gains, we have experienced net losses in each quarterly and annual period since 1993. We incurred net losses of $7.9 million, $47.1 million, and $163.4 million, for the years ended December 31, 2004, 2003 and 2002, respectively. As of December 31, 2004, we had an accumulated deficit of $2.0 billion, and are unsure when or if we will become profitable on a recurring basis. The size of our future losses will depend, in part, on the rate of growth in our revenues from broker, agent, home builder and rental property owner, advertising sales and sales of other products and services. The size of our future net losses will also be impacted by non-cash stock-based charges relating to deferred compensation and stock and warrant issuances, and amortization of intangible assets. As of December 31, 2004, we had approximately $19.7 million of stock-based charges and intangible assets to be amortized. In addition, we will continue to use cash to repay existing liabilities that have arisen from prior contractual arrangements and recent restructuring charges until those liabilities are satisfied.

Our quarterly financial results are subject to significant fluctuations.

Our results of operations may vary significantly from quarter to quarter. In the near term, we expect to be substantially dependent on sales of our advertising and media services. We also expect to make significant investments in our businesses and incur significant sales and marketing expenses to promote our brand and services. Therefore, our quarterly revenue and operating results are likely to be particularly affected by the success of our investment strategy and by the number of customers purchasing advertising and media services. If revenue falls below our expectations, we will not be able to reduce our spending rapidly in response to the shortfall.

Other factors that could affect our quarterly operating results include those described below and elsewhere in this Form 10-K:

- the level of renewals for our services and the purchase of media services by real estate agents, brokers and rental property owners and managers;
- the amount of advertising sold on our websites and the timing of payments for this advertising;
- the amount and timing of our operating expenses;
- the amount and timing of non-cash stock-based charges, such as charges related to deferred compensation or warrants issued to real estate industry participants; and
- the impact of fees paid to professional advisors in connection with litigation and accounting matters.

Litigation relating to accounting irregularities could have an adverse effect on our financial condition.

Following the December 2001 announcement of the discovery of accounting irregularities and the subsequent restatement of our 2000 and interim 2001 financial statements, numerous lawsuits claiming to be class actions and several lawsuits claiming to be brought derivatively on our behalf were commenced in various courts against us and certain of our current and former officers and directors by or on behalf of persons purporting to be our stockholders and persons claiming to have purchased or otherwise acquired securities issued by us between May 2000 and December 2001. The California State Teachers Retirement System was named lead plaintiff, or the Plaintiff , in the consolidated securities class action lawsuits against us (the Securities Class Action Lawsuit). On August 12, 2003, we entered into a settlement agreement with the Plaintiff to resolve all outstanding claims related to the Securities Class Action Lawsuit. As a part of the settlement, we agreed to pay $13.0 million in cash and issue 20.0 million new shares of our common stock valued at $50.6 million as of August 12, 2003.

On May 14, 2004, the District Court entered final judgment and an order of dismissal with prejudice of the Securities Class Action Lawsuit as to us. The final judgment includes a bar order providing for the maximum protection to which we are entitled under the law with respect to all future claims for contribution or indemnity by other persons, whether under federal, state or common law.

On June 10, 2004, an objector to the settlement filed a notice of appeal. The Company and Plaintiff reached a settlement with the objector and the objector dismissed the appeal on March 4, 2005. The $13.0 million and the 20.0 million shares currently held in trust will be distributed to the class and Plaintiff s counsel in accordance with the judgment.

Although the settlement of the Securities Class Action Lawsuit is no longer subject to appeal, we continue to be subject to litigation by persons who have elected to be excluded from the settlement. Moreover, we could be subject to claims that may not have been discharged or barred by the settlement, including potential claims by Cendant Corporation (Cendant) for contribution or indemnity. See Note 21, Settlements of Disputes and Litigation, Note 22, Commitments and Contingencies to our Consolidated Financial Statements contained in Item 8 of Form 10-K for more information.

In addition, we are subject to several other shareholder lawsuits relating to accounting irregularities that could have an adverse effect on our business. See Note 21, Settlements of Disputes and Litigation, and Note 22, Commitments and Contingencies, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K for more information.

Limitations of our Director and Officer Liability Insurance and potential indemnification obligations may adversely affect our financial condition.

Several securities actions currently are pending against us and certain of our former and current officers and directors. During the relevant time period, our liability insurance provided limited claims-made coverage for allegations of wrongful acts by our officers and directors, which allegations, in part, form the basis of the pending actions. During the relevant time period, our insurers provided a total of $80.0 million in primary and excess coverage. As the policies are written and subject to their unique terms and provisions $30.0 million of coverage is available to us, as an entity, with regard to securities actions. That same $30.0 million of insurance also covers our obligations to indemnify our officers and directors with respect to liability claims. The additional $50.0 million of insurance, as well as the first $30.0 million, covers individual officers and directors directly should we not indemnify them for their liability losses. The failure of our policies to adequately cover liabilities or expenses incurred in connection with the pending actions has materially and adversely affected our results of operations and financial position, to date, and could continue into the future. Several of our insurance carriers representing $60.0 million in coverage also have purported to rescind their respective policies of insurance and have filed lawsuits seeking judicial confirmation of their actions.

Under Delaware and California law, our certificate of incorporation and bylaws, and certain indemnification agreements we entered into with our executive officers and directors, we may have certain obligations to indemnify our current and former officers and directors. The indemnification may cover any expenses and/or liabilities reasonably incurred in connection with the investigation, defense, settlement or appeal of legal proceedings. One of our former officers filed a lawsuit against us seeking to recover expenses incurred, plus further expenses and liabilities that he may incur, in connection with the SEC and Department of Justice investigations and lawsuits that have been filed against him with respect to our prior accounting irregularities. See Note 22, Commitments and Contingencies Legal Proceedings Contingencies Related to Pending Litigation Other Litigation, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K for more information. On October 27, 2004, the Court ruled that we are obligated to advance all reasonable attorney s fees and costs to that former officer approximating $4.1 million.

Other former officers

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and directors likely have incurred and will incur similar expenses and liabilities and those who have not pled guilty to crimes may also seek recovery of those amounts from us. Although we may appeal the decision, we have recorded $8.0 million for our estimate of those expenses through December 2004. We may have to spend this amount and more indemnifying these officers and directors or paying for damages that they may incur. Our financial condition could be materially and adversely affected if we have to make these payments for indemnification.

We continue to incur costs related to the SEC investigation of prior accounting irregularities.

In December 2001, we announced that the Audit Committee of our Board of Directors was conducting an inquiry into certain of our accounting practices and that the results of the inquiry to date indicated that our unaudited interim financial statements for 2001 would require restatement. In February 2002, we announced that we would restate our financial results for the year ended December 31, 2000. In connection with the restatement, in March 2002 we filed an amended Form 10-K for the year ended December 31, 2000 and amended Form 10-Qs for the first three quarters of 2001.

In January 2002, we were notified that the SEC had issued a formal order of private investigation in connection with the accounting matters that resulted in the restatement of our financial statements. The SEC requested that we provide them with certain documents concerning the restatement. The SEC also requested access to certain of our current and former employees for interviews. We have cooperated and continue to cooperate fully with the SEC s investigation.

Since September 2002, certain of our former employees have entered into plea agreements with the United States Attorney s Office and the SEC in connection with the investigation. Also in September 2002, the SEC and the Department of Justice informed us that, in light of the actions taken by our Board of Directors and our Audit Committee and our cooperation in the SEC s investigation, those agencies would not bring any enforcement action against us. Because the SEC and DOJ investigations are ongoing and we are committed to cooperating with those investigations, we will likely continue to incur additional costs related to the investigation and management time and attention may be diverted until the investigation concludes.

Contingent obligations to Cendant related to our Securities Class Action Lawsuit could have an adverse effect on our financial condition.

On August 5, 2003, we settled the dispute with Cendant arising out of our 2001 acquisition of Move.com, Inc. and Welcome Wagon®International, Inc., or the Move.com Group, from Cendant. See Note 21, Settlements of Disputes and Litigation, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K. Under the terms of the settlement agreement, Cendant agreed not to sue us, or our officers, directors and other related parties, with respect to the acquisition of the Move.com Group and the prior restatement of our financial statements. However, in the circumstances described below, Cendant retains the right to sue us for contribution, indemnification, or similar relief if Cendant is held liable for or settles claims against it in the Securities Class Action Lawsuit up to the amount for which it is held liable or for which it settles. On March 7, 2003, the court in the Securities Class Action Lawsuit dismissed, with prejudice, Cendant as a defendant. However, that dismissal has been appealed to the United States Court of Appeals for the Ninth Circuit. In October 2004, the Securities and Exchange Commission filed an amicus brief in support of the appeal. If Cendant s dismissal as a defendant in the Securities Class Action Lawsuit is reversed on appeal and Cendant is subsequently found liable or settles the claims against it in the Securities Class Action Lawsuit, Cendant will likely seek indemnification, contribution or similar relief from us. However, on March 16, 2004, as part of our settlement of the Securities Class Action Lawsuit, the United States District Court issued an order approving the settlement and barring claims by third parties against us for indemnification, contribution and similar relief with respect to liability such third parties may have in the Securities Class Action Lawsuit.

The March 16, 2004 order may preclude Cendant from seeking indemnification, contribution or similar relief from us in the event Cendant is found liable or settles claims against it in the Securities Class Action Lawsuit. However, we have been advised by counsel that the law is unclear on whether Cendant would be so

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precluded. Therefore, we would likely incur significant expenses in defending such an action by Cendant and could ultimately be found liable to Cendant or settle with Cendant, notwithstanding the bar order. Such expenses, liability or settlement could have a material adverse effect on our results of operation and our financial position.

In addition, if Cendant is not permitted to share in the settlement of the Securities Class Action Lawsuit (which would be the case if its dismissal as a defendant is reversed on appeal), we have agreed to pay or otherwise provide to Cendant the amount of money and/or other consideration that Cendant would have been otherwise entitled to receive from that portion of the class action settlement fund provided by us had Cendant been a class member and Cendant s proof of claim in respect of its shares had been accepted in full. At this time, Cendant is still a member of the class and has not been excluded. Pending resolution of the appeal and approval by the District Court of the distribution to the class of the cash held in escrow and shares held in trust, we are unable to estimate the amount of cash and number of shares that Cendant could be entitled to receive from us should Cendant be prevented from participating in the settlement.

We could be required to expend substantial amounts in connection with continuing indemnification obligations to a purchaser of one of our businesses.

As part of the sale in 2002 of our ConsumerInfo division to Experian Holdings, Inc. (Experian), $10.0 million of the purchase price was put in escrow to secure our indemnification obligations. This escrow was scheduled to terminate in the third quarter of 2003, but prior to the scheduled termination, Experian demanded indemnification from us for claims made against Experian or its subsidiaries by several parties, including allegations of unfair and deceptive advertising in connection with ConsumerInfo s furnishing of credit reports and providing Advice for Improving Credit that appeared on its website both before, during and after our ownership of ConsumerInfo. Experian is defending these claims. In January of 2005, Experian informed us that they had received a settlement proposal in connection with certain of the unfair and deceptive advertising allegations for an amount greater than the remaining $7.3 million balance of the escrow. There can be no assurance that as a result of resolution of the claims that Experian may not seek to recover from us an amount in excess of the escrow. Under the terms of the stock purchase agreement, our maximum potential liability for the claims made by Experian is capped at $29.3 million less the balance in the escrow.

Our employees, investors, customers, business partners and vendors may react adversely to the continuing litigation brought against us.

Our future success depends in large part on the continued support of our key employees, investors, customers, business partners and vendors who may react adversely to the litigation that has continued to be brought against us following the restatement of our 2000 and interim 2001 financial statements. The restatement of our financial statements and the uncertainty associated with substantial unresolved lawsuits referred to above has resulted in substantial amounts of negative publicity about us. We may not be able to motivate or retain key employees or retain customers or key business partners if they lose confidence in us, and our vendors may re-examine their willingness to do business with us. In addition, investors may lose confidence in us, which may adversely affect the trading price of our common stock. If we lose the services of our key employees or are unable to retain our existing customers, business partners and vendors or attract new customers, our business, operating results and financial condition could be materially and adversely affected.

We may be subject to litigation.

Our business and operations may subject us to claims, litigation and other proceedings brought by private parties and governmental authorities. For information regarding certain proceedings to which we are currently a party, see Note 22, Commitments and Contingencies Legal Proceedings to our Consolidated Financial Statements in Item 8 in this Form 10-K.

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Our common stock price may be volatile, which could result in substantial losses for individual stockholders.

The market price for our common stock has fluctuated from 2001 through early 2005. It is likely to continue to be highly volatile and subject to wide fluctuations in response to many factors, including the factors described herein and the following, some of which are beyond our control:

actual or anticipated variations in our quarterly operating results;

announcements of technological innovations or new products or services by us or our competitors;

changes in financial estimates by securities analysts;

conditions or trends in the Internet, technology and/or real estate and real estate-related industries;

market prices for stocks of Internet companies and other companies whose businesses are heavily dependent on the Internet, which have generally proven to be highly volatile, particularly in recent quarters; and

adverse publicity relating to litigation.

The emergence of competitors and referral fee business models may adversely impact our business.

A number of competitors, including LendingTree (a division of InterActive Corp) and HomeGain.com, Inc., have emerged offering or proposing to offer a referral fee business model. These models may be attractive to real estate professionals because it requires little or no upfront expenditures to obtain business prospects. The model requires them to share part of their commission with the media provider upon the actual receipt of revenue from the closing of a transaction. In addition, a number of competitors, including HouseValues, Inc. have emerged offering or proposing a lead-based business model. This model also requires no upfront expenditure but charges real estate professionals for consumer leads received. Our business model is a media model that requires upfront advertising payment on our network of websites. While we continue to explore other business models, we do not currently offer this model.

Our future success depends upon our management s ability to execute its business plan.

In January and October 2002, we replaced much of our senior management team. The current senior management team includes W. Michael Long, our Chief Executive Officer, Jack D. Dennison, our Chief Operating Officer, and Lewis R. Belote, III, our Chief Financial Officer. In addition, Allan Dalton was appointed as President of the REALTOR.com® unit and Michael R. Douglas was appointed as Executive Vice President and General Counsel. Allan P. Merrill is our Executive Vice President of Strategy and Corporate Development. Also, in the third and fourth quarter of 2004, we appointed Maria L. Pietroforte as President of RENTNET.com®, Stephen Feltner as President of HomeBuilder.com™ and Sunil Mehrotra as President of our Consumer/ Retail Advertising unit. Our future success will depend in part on the continued integration of senior management with other members of management and the rest of our employees and business partners, their understanding of the business, and their implementation of processes and procedures that allow us to respond to our customers needs.

Focusing on our core business may require sales of assets and/or discontinuing certain operations, which could lead to write-offs or unusual/non-recurring items in our financial statements.

In February 2002, we announced that we would re-focus on our core business objective to make real estate professionals more productive and profitable. This focus has involved and may continue to involve the disposition of non-strategic business and corporate services. For example, in February 2002, we sold our eNeighborhoods division, and in March 2002 we sold all of the capital stock of Homestore Consumer Information Corp., which includes ConsumerInfo.com, for $130.0 million in cash to Experian Holdings, Inc. In addition, in the first quarter of 2003, we sold substantially all of the assets of The Hessel Group, our relocation tax software and services business. In the fourth quarter of 2004, we sold our Wyldfyre and Computers for Tracts businesses. We do not have plans to sell any other significant assets.

Our agreement with the National Association of REALTORS® could be terminated.

The REALTOR.com® trademark and website address and the REALTOR® trademark are owned by NAR. NAR licenses these trademarks to our subsidiary RealSelect under a license agreement, and RealSelect operates the REALTOR.com® website under an operating agreement with NAR.

Although the REALTOR.com® operating agreement is a lifetime agreement, NAR may terminate it for a variety of reasons. These include:

- the acquisition of us or RealSelect by another party;
- if traffic on the REALTOR.com® site falls below 500,000 unique users per month;
- a substantial decrease in the number of property listings on our REALTOR.com® site; and
- a breach of any of our other obligations under the agreement that we do not cure within 30 days of being notified by NAR of the breach.

Absent a breach by NAR, the agreement does not contain provisions that allow us to terminate.

Our agreement with NAR contains a number of provisions that could restrict our operations.

Our operating agreement with NAR, as amended, contains a number of provisions that restrict how we operate our business. These provisions include the following restrictions and requirements:

- we must make quarterly fixed payments to NAR as follows:
  - For 2005, we must pay $1.5 million in four installments of $375,000 due on the last day of each calendar quarter of 2005.
  - For 2006, we must pay $1.5 million plus or minus, as the case may be, the percentage change in the Consumer Price Index for 2005, in four equal installments due on the last day of each calendar quarter of 2006.
  - For 2007 and beyond, we must pay the amount due during the prior calendar year plus or minus, as the case may be, the percentage change in the Consumer Price Index for the prior calendar year, in four equal installments due on the last day of each calendar quarter for that calendar year;
- we amended, and continue to amend, many of our agreements with the entities that provide us the information for our real property listings (data content providers) to reduce or eliminate the amounts that we must pay to data content providers. In exchange, in some cases, we shortened or are shortening the duration of these agreements, including those agreements under which we receive the real property listings on an exclusive basis;
- we are restricted in the type and subject matter of, and the manner in which we display, advertisements on the REALTOR.com® website;
- NAR has the right to approve how we use its trademarks, and we must comply with its quality standards for the use of these marks;
- we must meet performance standards relating to the availability time of the REALTOR.com® website;
- NAR has the right to review, approve and request changes to the content on certain pages of our REALTOR.com® website; and
- we are restricted in our ability to create additional websites or pursue other lines of business that engage in displaying real property advertisements in electronic form.

In addition, our operating agreement with NAR contains restrictions on how we can operate the REALTOR.com® website. For instance, we can only enter into agreements with entities that provide us with real estate listings, such as MLSs, on terms approved by NAR. In addition, NAR can require us to include on REALTOR.com® real estate related content that it has developed.

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***If our operating agreement for REALTOR.com® were terminated, NAR would be able to operate the REALTOR.com*® website.**

If our operating agreement with NAR were terminated, we would be required to transfer a copy of the software that operates the REALTOR.com® website and assign our agreements with data content providers, such as real estate brokers or MLSs, to NAR. NAR would then be able to operate the REALTOR.com® website itself or with another third party.

We are subject to non-competition provisions with NAR, which could adversely affect our business.

We were required to obtain the consent of NAR prior to our acquisition of our SpringStreet, Inc., Move.com and HomeBuilder.com™ websites. In the future, if we acquire or develop another service that provides real estate listings on an Internet site or through other electronic means, we will need to obtain the prior consent of NAR. Any future consents from NAR, if obtained, could be conditioned on our agreeing to operational conditions for the new website or service. These conditions could include paying fees to NAR, limiting the types of content or listings on the websites or service or other terms and conditions. Our business could be adversely affected if we do not obtain consents from NAR, or, if we obtain a consent, by any restrictive conditions in the consent. These non-competition provisions and any required consent, if accepted by us at our discretion, could have the effect of restricting the lines of business that we may pursue.

Our agreement with the National Association of Home Builders contains provisions that could restrict our operations.

Our operating agreement with NAHB includes a number of restrictions on how we operate our HomeBuilder.com™ website:

- if NAR terminates our REALTOR.com® operating agreement, for six months thereafter NAHB can terminate its operating agreement with us on three months prior notice;

- we are restricted in the type and subject matter of advertisements on the pages of our HomeBuilder.com™ website that contain new home listings; and

- NAHB has the right to approve how we use its trademarks and we must comply with its quality standards for the use of its marks.

Our RENTNET.com® website is subject to a number of restrictions on how it may be operated.

In agreeing to our acquisition of SpringStreet, NAR imposed a number of restrictions on how we can operate the RENTNET.com® website (formerly Homestore® Apartments & Rentals website). These include:

- if NAR terminates its consent for any reason, we will have to transfer to NAR all data and content, such as listings, on the rental site that were provided by REALTORS®;

- listings for rental units in smaller non-apartment properties generally must be received from a REALTOR® or a REALTOR®-controlled MLS in order to be listed on the website;

- if the consent is terminated, we could be required to operate our rental properties website at a different web address;

- if the consent is terminated for any reason, other than as a result of a breach by NAR, NAR will be permitted to use the REALTOR®-branded web address, resulting in increased competition;

- we cannot list properties for sale on the rental website for the duration of our REALTOR.com® operating agreement and for an additional two years;

- we are restricted in the type and subject matter of, and the manner in which we display, advertisements on the rental website; and we must offer REALTORS® preferred pricing for home pages or enhanced advertising on the rental website.

NAR could revoke its consent to our operating our RENTNET.com® website.

NAR can revoke its consent to our operating our RENTNET.com® website for reasons which include:

- the acquisition of us or RealSelect by another party;
- a substantial decrease in property listings on our REALTOR.com® website; and
- a breach of any of our obligations under the consent or the REALTOR.com® operating agreement that we do not cure within 30 days of being notified by NAR of the breach.

The National Association of REALTORS® has significant influence over aspects of our RealSelect subsidiary s corporate governance and has a representative on our Board.

NAR has significant influence over RealSelect s corporate governance.

Board Representatives. NAR is entitled to have one representative as a member of our Board of Directors and two representatives as members of RealSelect s Board of Directors (out of a current total of 8).

Approval Rights. RealSelect s certificate of incorporation contains a limited corporate purpose, which purpose is the operation of the REALTOR.com® website and real property advertising programming for electronic display and related businesses. Without the consent of seven-eighths of the members of the RealSelect Board of Directors, which would have to include at least one NAR-appointed director, this limited purpose provision cannot be amended.

RealSelect s bylaws also contain protective provisions which could restrict portions of its operations or require us to incur additional expenses. If the RealSelect Board of Directors cannot agree on an annual operating budget for RealSelect, it would use as its operating budget the operating budget from the prior year, adjusted for inflation. Any expenditures in excess of that budget would have to be funded by us. In addition, if RealSelect desired to incur debt or invest in assets in excess of $2.5 million without the approval of a majority of its board, which would have to include at least one NAR-appointed director, we would need to fund those expenditures.

RealSelect also cannot take the following actions without the consent of at least one of NAR s representatives on its Board of Directors:

- amend its certificate of incorporation or bylaws;
- pledge its assets;
- approve transactions with affiliates, stockholders or employees in excess of $100,000;
- change its executive officers;
- establish, or appoint any members to, a committee of its Board of Directors; or
- issue or redeem any of its equity securities.

We must continue to obtain listings from Multiple Listing Services, real estate brokers and home builders.

We believe that our success depends in large part on the number of real estate listings received from MLSs, brokers, home builders and rental owners. Many of our agreements with MLSs to display property listings have fixed terms, typically 12 to 36 months. At the end of the term of each agreement, the other party may choose not to renew their agreement with us. We incurred significant expenditures to secure agreements with providers of real estate information. However, beginning in 2003 we renegotiated with each MLS to renew our contract without requiring future payments from us. We have been successful in renegotiating our agreements with MLSs to reduce our costs. However, there is no assurance the MLS s will continue to remain on similar terms and if they choose not to renew their relationship with us, then our websites could become less attractive to other real estate industry participants or consumers.

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It is important to our success that we support our real estate professional customers.

Since many real estate professionals are not sophisticated computer users and often spend limited amounts of time in their offices, it is important that these customers find that our software and website products significantly enhance their productivity and are easy to use. To meet these needs, we provide customer training and have developed a customer support organization that seeks to respond to customer inquiries as quickly as possible. If we do not maintain adequate support levels, our customers may choose not to renew their subscriptions for our software and website products.

Failure of real estate professionals to accept online media-based pricing may adversely affect our financial results.

In the past we sold products and media services at a single national rate for all customers. In 2003, we began offering these products and services under a more traditional media model where pricing is dependent upon geographic market, placement, content and length or quantity of the media run, which has affected the pricing levels paid by our customers. The success of our pricing strategy will depend on its acceptance by our customers. If real estate professionals do not accept our pricing structure and subsequent price increases, this could lead to a decrease in our sales, which could have an adverse affect on our financial results.

We must dedicate significant resources to market our subscription products and media services to real estate professionals.

Real estate agents are generally independent contractors rather than employees of brokers and typically spend a majority of their time outside the office. As a result, it is often necessary for us to communicate with them on an individual basis. This results in relatively high fixed costs associated with our inside and field-based sales activities. In addition, since we offer media services to both real estate brokers and agents, we are often required to contact them separately when marketing our products and media services.

A failure to establish and maintain strategic online relationships that generate a significant amount of traffic could limit the growth of our business.

We have established strategic relationships with online companies that generate a significant amount of online traffic for our websites. Failure to maintain these relationships and create new ones could limit the growth of our business. Although we expect that a significant portion of our online customers will continue to come to our websites directly, we also continue to rely on third-party websites with which we have relationships, including websites operated by AOL, Yahoo!, MSN, Excite, iWon.com, Internet Broadcast Systems, United Online through its Juno and NetZero brands, Overture and Google for online traffic. We may also be required to pay significant fees to establish, maintain and expand our existing online relationships. As a result, our revenue may suffer if we fail to enter into new relationships or maintain existing relationships or if these relationships do not result in online traffic sufficient to justify their costs.

The market for web-based subscription and advertising services relating to real estate is competitive.

Our main existing and potential competitors include websites offering real estate related content and services as well as general purpose online services, and traditional media such as newspapers, magazines and television that may compete for advertising dollars.

The barriers to entry for web-based services and businesses are low, making it possible for new competitors to proliferate rapidly. In addition, parties with whom we have listing and marketing agreements could choose to develop their own Internet strategies or competing real estate sites. Many of our existing and potential competitors have longer operating histories in the Internet market, greater name recognition, larger consumer bases and significantly greater financial, technical and marketing resources than we do. The rapid pace of technological change constantly creates new opportunities for existing and new competitors and it can quickly render our existing technologies less valuable.

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Our future success depends largely on our ability to attract, retain and motivate personnel.

Our future success depends on our ability to attract, retain and motivate highly skilled technical, managerial, sales personnel, our senior management and other key personnel. The loss of the services of key employees would likely have a significantly detrimental effect on our business. Several of our key senior management have employment agreements that we believe will assist in our ability to retain them. However, many other key employees do not have employment agreements. Competition for qualified personnel in our industry and geographical locations is intense. We can give no assurance that we will be successful in attracting, integrating, retaining and motivating a sufficient number of qualified employees to conduct our business in the future. Volatility or lack of positive performance in our stock price may also adversely affect our ability to retain key employees, many of whom have been granted stock options.

In the past, we have implemented a number of workforce reductions. As a result, we now operate with fewer employees and existing employees may have to perform new tasks. These factors and our current financial health may create concern about job security among existing employees that could lead to increased turnover. We may have difficulties in retaining and attracting employees. Employee turnover may result in a loss of knowledge about our customers, our operations and our internal systems, which could materially harm our business. If any of our employees leave, we may not be able to replace them with employees possessing comparable skills. Attracting and retaining qualified personnel with experience in the real estate industry, a complex industry that requires a unique knowledge base, is an additional challenge for us. The loss of services of any of our key personnel, excessive turnover of our work force, the inability to retain and attract qualified personnel in the future or delays in hiring required personnel may have a material adverse effect on our business, operating results or financial condition.

Our investment strategy may not meet its objectives and could adversely affect our results of operations and financial position.

In November 2004, we announced our decision to invest approximately $25 million in our underperforming businesses and in our corporate infrastructure. If we do not meet our investment objectives, we may have to implement plans for restructuring in order to reduce our operating costs. Developing and implementing investment plans are time consuming and could divert management s attention, which could have an adverse effect on our financial results.

We need to continue to develop our content and product and service offerings.

To remain competitive, we must continue to enhance and improve the ease of use, responsiveness, functionality and features of our websites and services. These efforts may require us to develop internally or to license increasingly complex technologies. In addition, many companies are continually introducing new Internet-related products, services and technologies, which will require us to update or modify our technology. Developing and integrating new products, services or technologies into our websites could be expensive and time consuming. Any new features, functions or services may not achieve market acceptance or enhance our brand loyalty. If we fail to develop and introduce or acquire new features, functions or services effectively and on a timely basis, we may not continue to attract new users and may be unable to retain our existing users. Furthermore, we may not succeed in incorporating new Internet technologies, or, in order to do so, we may incur substantial additional expenses.

Delaware law, our certificate of incorporation and bylaws, and other agreements contain provisions that could discourage a takeover.

Delaware law, our certificate of incorporation and bylaws, our operating agreement with NAR, other agreements with business partners and a stockholders agreement could have the effect of delaying or preventing a third party from acquiring us, even if a change in control would be beneficial to our stockholders. For example, we currently have a classified Board of Directors. In addition, our stockholders are unable to act by written consent or to fill any vacancy on the Board of Directors. Our stockholders cannot call special meetings of stockholders for any purpose, including to remove any director or the entire Board of Directors without cause. In addition, NAR could terminate the REALTOR.com® operating agreement if we are or RealSelect is acquired.

We rely on intellectual property and proprietary rights.

We regard substantial elements of our websites and underlying technology as proprietary. Despite our precautionary measures, third parties may copy or otherwise obtain and use our proprietary information without authorization or develop similar technology independently. Any legal action that we may bring to protect our proprietary information could be unsuccessful, expensive and distract management from day-to-day operations.

Other companies may own, obtain or claim trademarks that could prevent or limit or interfere with use of the trademarks we use. The REALTOR.com® website address and trademark and the REALTOR® trademark are important to our business and are licensed to us by NAR. If we were to lose the REALTOR.com® domain name or the use of these trademarks, our business would be harmed and we would need to devote substantial resources toward developing an independent brand identity.

Legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and evolving, and we can give no assurance regarding the future viability or value of any of our proprietary rights.

We may not be able to protect the website addresses that are important to our business.

Our website addresses, or domain names, are important to our business. However, the regulation of domain names is subject to change, and it is also possible that the requirements for holding domain names could change. Therefore, we may not be able to obtain or maintain relevant domain names for all of the areas of our business. It also may be difficult for us to prevent third parties from acquiring domain names that are similar to ours, that infringe our trademarks or that otherwise decrease the value of our intellectual property.

We could be subject to litigation with respect to our intellectual property rights.

Other companies may own or obtain patents or other intellectual property rights that could prevent, limit or interfere with our ability to provide our products and services. Companies in the Internet market are increasingly making claims alleging infringement of their intellectual property rights. We could incur substantial costs to defend against these or any other claims or litigation. If a claim were successful, we could be required to obtain a license from the holder of the intellectual property or redesign our advertising products and services.

Real Estate Industry Risks

Our business is dependent on the strength of the real estate industry, which is both cyclical and seasonal.

The real estate industry traditionally has been cyclical. Recently, sales of real estate in the United States have been at historically high levels. Economic swings in the real estate industry may be caused by various factors. When interest rates are high or general national and global economic conditions are or are perceived to be weak, there is typically less sales activity in real estate. A decrease in the current level of sales of real estate and products and services related to real estate could adversely affect demand for our family of websites and our subscription and advertising products and services. In addition, reduced traffic on our family of websites would likely cause our subscription and advertising revenue to decline, which would materially and adversely affect our business. We may experience seasonality in our business. The real estate industry generally experiences a decrease in activity during the winter.

We may particularly be affected by general economic conditions.

Purchases of real property and related products and services are particularly affected by negative trends in the general economy. Substantially all of our revenue has been, and is expected to continue to be, derived from customers in the United States. The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer and business spending, and the overall economy, as well as regional and local economic conditions in markets where we operate, including:

- perceived and actual economic conditions;
- interest rates;
- taxation policies;
- availability of credit;
- employment levels;
- wage and salary levels; and
- fears of terrorist attacks or the threat of war.

In addition, because a consumer s purchase of real property and related products and services is a significant investment and is relatively discretionary, any reduction in disposable income in general may affect us more significantly than companies in other industries.

Recessionary pressures traditionally impact real estate markets.

During recessionary periods, there tends to be a corresponding decline in demand for real estate, generally and regionally, that could adversely affect certain segments of our business. Such adverse effects typically are a general decline in rents and sales prices, a decline in leasing activity, a decline in the level of investments in, and the value of real estate, and an increase in defaults by tenants under their respective leases. All of these, in turn, adversely affect revenue for fees and brokerage commissions, which are derived from property sales, and annual rental payments and property management fees.

We have risks associated with changing legislation in the real estate industry.

Real estate is a heavily regulated industry in the U.S., including regulation under the Fair Housing Act, the Real Estate Settlement Procedures Act and state advertising laws. In addition, states could enact legislation or regulatory policies in the future, which could require us to expend significant resources to comply. These laws and related regulations may limit or restrict our activities. As the real estate industry evolves in the Internet environment, legislators, regulators and industry participants may advocate additional legislative or regulatory initiatives. Should existing laws or regulations be amended or new laws or regulations be adopted, we may need to comply with additional legal requirements and incur resulting costs, or we may be precluded from certain activities. For instance, RENTNET.com® was required to qualify and register as a real estate agent/broker in the State of California. To date, we have not spent significant resources on lobbying or related government issues. Any need to significantly increase our lobbying or related activities could substantially increase our operating costs.

Internet Industry Risks

We depend on increased use of the Internet to expand our real estate-related advertising products and services.

If the Internet does not continue to be a viable marketplace for real estate content and information or if the pace of adoption by consumers of the Internet slows, our business growth may suffer. Broad acceptance and adoption of the Internet by consumers and businesses when searching for real estate and related products and services will continue only if the Internet continues to provide them with greater efficiencies and improved access to information.

In addition to selling subscription and media services to real estate professionals, we depend on selling other types of advertisements on our websites.

We have experienced a deterioration in the demand for our advertising services due to the slowdown in the U.S. economy, decreased corporate spending and concerns about the effectiveness of Internet advertising.

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Our ability to generate advertising revenue from selling banner advertising, display ads and sponsorships on our websites will depend on, among other factors, the development of the Internet as an advertising medium, the amount of traffic on our websites and our ability to achieve and demonstrate user demographic characteristics that are attractive to advertisers. Most potential advertisers and their advertising agencies have only limited experience with the Internet as an advertising medium and have not devoted a significant portion of their advertising expenditures to Internet-based advertising. No standards have been widely accepted to measure the effectiveness of web advertising. If these standards do not develop, existing advertisers might reduce their current levels of Internet advertising or eliminate their spending entirely. The widespread adoption of technologies that permit Internet users to selectively block out unwanted graphics, including advertisements attached to the web pages, could also adversely affect the growth of the Internet as an advertising medium. In addition, advertisers in the real estate industry, including real estate professionals, have traditionally relied upon other advertising media, such as newsprint and magazines, and have invested substantial resources in other advertising methods. These persons may be reluctant to adopt a new strategy and advertise on the Internet. If the demand for the Internet advertising remains sluggish due to current economic conditions or a weak U.S. economy, our revenue and operating results could be harmed materially.

Government regulations and legal uncertainties could affect the growth of the Internet.

A number of legislative and regulatory proposals under consideration by federal, state, local and foreign governmental organizations may lead to laws or regulations concerning various aspects of the Internet, including online content, user privacy, access charges, liability for third-party activities and jurisdiction. Additionally, it is uncertain how existing laws will be applied to the Internet. The adoption of new laws or the application of existing laws may decrease the growth in the use of the Internet, which could in turn decrease the usage and demand for our services or increase our cost of doing business.

Taxation of Internet transactions could slow the use of the Internet.

In December 2004, Congress enacted the Internet Tax Nondistrimination Act (Public Law (108-435), which placed a moratorium on states and local governments imposing (i) taxes on Internet access and (ii) multiple or discriminatory taxes on electronic commerce through November 1, 2007. If this moratorium is not renewed, U.S., state and local governments would be free to impose new taxes on Internet access. The imposition of such taxes could impair the growth of electronic commerce and thereby adversely affect the growth of our business.

We depend on continued improvements to our computer network and the infrastructure of the Internet.

Any failure of our computer systems that causes interruption or slower response time of our websites or services could result in a smaller number of users of our websites or the websites that we host for real estate professionals. If sustained or repeated, these performance issues could reduce the attractiveness of our websites to consumers and our subscription products and media services to real estate professionals, providers of real estate-related products and services and other Internet advertisers. Increases in the volume of our website traffic could also strain the capacity of our existing computer systems, which could lead to slower response times or system failures. This would cause the number of real property search inquiries, advertising impressions, other revenue producing offerings and our informational offerings to decline, any of which could hurt our revenue growth and our brand loyalty. We may need to incur additional costs to upgrade our computer systems in order to accommodate increased demand if our systems cannot handle current or higher volumes of traffic. We may not be able to project accurately the rate, timing or cost of any increases in our business, or to expand and upgrade our systems and infrastructure to accommodate any increases in a timely manner.

Our ability to increase the speed with which we provide services to consumers and to increase the scope of these services is limited by and dependent upon the speed and reliability of the Internet. Consequently, the emergence and growth of the market for our services is dependent on the performance of and future improvements to the Internet.

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Our internal network infrastructure could be disrupted.

Our operations depend upon our ability to maintain and protect our computer systems, located at our corporate headquarters in Westlake Village, California and our technology facility in Thousand Oaks, California. Temporary or permanent outages of our computers or software equipment could have an adverse effect on our business. Although we have not experienced any material outages to date, we currently do not have a fully redundant system for our websites and other services at an alternate site. Therefore, our systems are vulnerable to damage from break-ins, unauthorized access, vandalism, fire, earthquakes, power loss, telecommunications failures and similar events. Although we maintain insurance against fires, earthquakes and general business interruptions, the amount of coverage may not be adequate in any particular case.

Experienced computer programmers, or hackers, may attempt to penetrate our network security from time to time. Although we have not experienced any material security breaches to date, 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.

We could face liability for information on our websites and for products and services sold over the Internet.

We provide third-party content on our websites, particularly real estate listings. We could be exposed to liability with respect to this third-party information. Persons might assert, among other things, that, by directly or indirectly providing links to websites operated by third parties, we should be liable for copyright or trademark infringement or other wrongful actions by the third parties operating those websites. They could also assert that our third-party information contains errors or omissions, and consumers could seek damages for losses incurred if they rely upon incorrect information.

We enter into agreements with other companies under which we share with these other companies revenue resulting from advertising or the purchase of services through direct links to or from our family of websites. These arrangements may expose us to additional legal risks and uncertainties, including local, state, federal and foreign government regulation and potential liabilities to consumers of these services, even if we do not provide the services ourselves. We cannot assure you that any indemnification provided to us in our agreements with these parties, if available, will be adequate.

Even if these claims do not result in liability to us, we could incur significant costs in investigating and defending against these claims. 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.

Item 2. ***Properties:***

We maintain the following principal facilities:

	Location	Square Feet	Lease Expiration
Principal executive and corporate office(C)(MS)	Westlake Village, CA	137,762	2008
Technology facility(MS)	Thousand Oaks, CA	13,717	2006
Operations and customer service center(MS)	Scottsdale, AZ	36,175	2007
Welcome Wagon®(P)	Plainview, NY	48,148	2015
Top Producer®(SW)	Richmond, BC	33,702	2008
Homestore Plans and Publications(P)	St. Paul, MN	24,645	2006
Enterprise(MS)	Milwaukee, WI	13,016	2007

(MS Media Services) (SW Software) (P Print) (C Corporate)

We believe that our existing facilities and office space are adequate to meet current requirements.

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Item 3. ***Legal Proceedings***

From time to time, we are party to various litigation and administrative proceedings relating to claims arising from our operations in the ordinary course of business. See the disclosure regarding litigation included in Note 21, Settlements of Disputes and Litigation, and Note 22, Commitments and Contingencies Legal Proceedings, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K, which disclosures are incorporated herein by reference. As of the date of this Form 10-K and except as set forth herein, we are not a party to any other litigation or administrative proceedings that management believes will have a material adverse effect on our business, results of operations, financial condition or cash flows.

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

We did not submit any matters to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2004.

PART II

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

Market Information

Our common stock was traded on The NASDAQ SmallCap Market under the symbol HOMS from November 18, 2002 until January 2, 2004. Prior to that time, our common stock was traded on The NASDAQ National Market. On January 2, 2004, we resumed trading on The NASDAQ National Market. The following table shows the high and low sale prices of the common stock as reported by The NASDAQ SmallCap Market or The NASDAQ National Market, as applicable, for the periods indicated.

	High	Low
2003		
First Quarter	$ 1.51	$ 0.51
Second Quarter	2.03	0.48
Third Quarter	3.95	1.62
Fourth Quarter	4.93	2.51
2004		
First Quarter	5.58	3.49
Second Quarter	5.95	3.70
Third Quarter	4.29	1.81
Fourth Quarter	3.31	2.25
2005		
First Quarter (through February 28, 2004)	3.24	2.10

As of February 28, 2005, there were approximately 996 record holders of our common stock. Because many of these shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

We have never declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future, except for an annual dividend of $0.08 to be paid on the one share of our Series A preferred stock held by NAR.

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Recent Sales of Unregistered Securities

There were no sales of unregistered equity securities by Homestore during 2004 that have not previously been reported in a Quarterly Report on Form 10-Q.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2004 regarding compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
	(In thousands)		(In thousands)
Equity compensation plans approved by security holders	19,748	$ 3.29	3,391
Equity compensation plans not approved by security holders	8,165	$ 2.29	10,450
Total	27,913	$ 2.99	13,841

Each of the above plans provides that the number of shares with respect to which options may be granted, and the number of shares of common stock subject to an outstanding option, shall be proportionately adjusted in the event of a subdivision or consolidation of shares or the payment of a stock dividend on common stock, and the purchase price per share of outstanding options shall be proportionately revised. Options outstanding as of December 31, 2004 pursuant to compensation plans assumed in connection with prior acquisitions, in the aggregate, total 206,060 and the weighted average exercise price of those option shares is $20.58.

The Homestore, Inc. 1999 Stock Incentive Plan, a security-holder approved plan, contains a provision for an automatic increase in the number of shares available for issuance each January 1 (until January 1, 2009) by an amount equal to 4.5% of the total number of outstanding shares as of the preceding December 31; provided that the aggregate number of shares that qualify as Incentive Stock Options (as defined in the plan) must not exceed 20.0 million shares.

The Homestore, Inc. 1999 Employee Stock Purchase Plan, a security-holder approved plan, also contained a provision for an automatic increase in the number of shares available for issuance each January 1 (until January 1, 2009) by an amount equal to one-half of one percent (0.5%) of the total number of outstanding shares as of the preceding December 31; provided that the aggregate number of shares reserved under this plan must not exceed 5.0 million shares. This plan was terminated in December 2004.

Non-Shareholder Approved Plans

Options are granted from the Homestore, Inc. 2002 Stock Incentive Plan, a plan established in January 2002 to attract and retain qualified personnel. No more then 40% of the available securities granted under this plan may be awarded to our directors or executive officers. Option grants under this plan are non-qualified stock options and generally have a 4-year vesting schedule and a 10-year life.

Other non-shareholder approved plans include the following plans assumed in connection with prior acquisitions: The 1997-1998 Stock Incentive Plan of Cendant Corporation, the Cendant Corporation Move.com Group 1999 Stock Option Plan, as amended and restated effective as of March 21, 2000, the

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Move.com, Inc. 2000 Stock Incentive Plan, the HomeWrite Incorporated 2000 Equity Incentive Plan, the ConsumerInfo.com, Inc. 1999 Stock Option Plan, the iPlace 2000 Stock Option Plan, the eNeighborhoods, Inc. 1998 Stock Option Plan, the Qspace, Inc. 1999 Stock Option Plan, the iPlace, Inc. 2001 Equity Incentive Plan and The Hessel Group, Inc. 2000 Stock Option Plan. Each of these plans (i) was intended to attract, retain and motivate employees, (ii) was administered by the Board of the Directors or by a committee of the Board of Directors of such entities, and (iii) provided that options granted thereunder would be exercisable as determined by such Board or committee, provided that no option would be exercisable after the expiration of 10 years after the grant date. We did not grant options under any of these plans in 2004, and we do not plan to do so in the future.

For additional information regarding our equity compensation plans, see Note 14, Stock Plans, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K.

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

You should read the following selected consolidated financial data together with the Consolidated Financial Statements and related notes included in Part II Item 8. Financial Statements and Supplementary Data and Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The consolidated statement of operations data for the years ended December 31, 2004, 2003 and 2002 and the consolidated balance sheet data as of December 31, 2004 and 2003 are derived from our audited Consolidated Financial Statements included in Part II Item 8. Financial Statements and Supplementary Data. The consolidated statement of operations data for the years ended December 31, 2001 and 2000 and the consolidated balance sheet data as of December 31, 2001 and 2000 have been derived from unaudited Consolidated Financial Statements not included in this Form 10-K. The consolidated balance sheet data as of December 31, 2002 was derived from audited Consolidated Financial Statements not included in this Form 10-K.

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001(3)**	**2000(3)**
	(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenue(2)	$ 216,860	$ 198,227	$ 219,867	$ 254,103	$ 174,706
Related party revenue		7,695	31,158	38,346	
Total revenue	216,860	205,922	251,025	292,449	174,706
Cost of revenue(2)	50,829	56,569	73,622	110,377	59,912
Gross profit	166,031	149,353	177,403	182,072	114,794
Operating expenses:					
Sales and marketing(2)	88,388	101,122	161,554	239,790	158,993
Product and website development(2)	15,362	17,065	25,497	32,397	14,259
General and administrative(2)	68,442	65,333	83,042	168,695	58,278
Amortization of goodwill and intangible assets(1)	7,894	21,863	34,699	199,291	42,868
In-process research and development					4,048
Restructuring charges(2)	1,316	4,100	12,057	50,234	
		26,999	3,482	925,094	

Impairment of long-lived assets					
Litigation settlement	2,168	63,600	23,000		
Total operating expenses	183,570	300,082	343,331	1,615,501	278,446

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	Year Ended December 31,									
	2004		2003		2002		2001(3)		2000(3)	
	(In thousands, except per share amounts)									
Loss from operations		(17,539)		(150,729)		(165,928)		(1,433,429)		(163,652)
Interest income (expense), net		672		(406)		2,673		10,490		23,032
Gain on settlement of distribution agreement				104,071						
Other income (expense), net		2,366		691		(5,694)		(44,393)		(7,045)
Loss from continuing operations		(14,501)		(46,373)		(168,949)		(1,467,332)		(147,665)
Gain on disposition of discontinued operations		7,294		2,530		11,790				
Income (loss) from discontinued operations		(679)		(3,281)		(6,266)		1,743		1,612
Net loss	$	(7,886)	$	(47,124)	$	(163,425)	$	(1,465,589)	$	(146,053)
Basic and diluted net income (loss) per share applicable to common shareholders.										
Continuing operations	$	(0.11)	$	(0.39)	$	(1.43)	$	(13.66)	$	(1.85)
Discontinued operations	$	0.05	$	(0.01)	$	0.05	$	0.02	$	0.02
Net loss	$	(0.06)	$	(0.40)	$	(1.39)	$	(13.64)	$	(1.83)
Shares used to calculate basic and diluted per share amounts		136,518		118,996		117,900		107,433		79,758

(1) We adopted SFAS No. 142 in 2002 and ceased amortizing goodwill as required by that standard.

(2) The following chart summarizes the stock-based charges that have been included in the following captions for the periods presented:

(3) Acquisitions during the year ended December 31, 2001 include Internet Pictures Corporation (iPIX), Computer for Tracts (CFT), Homewrite, Inc., Homebid.com, Inc., and Move.com Group which includes Welcome Wagon International, Inc., and RENTNET. Acquisitions during the year ended December 31, 2000 include Wyldfyre Technologies, Inc. (Wyldfyre), Top Producer Systems, Inc. (Top Producer), and The Hessel Group.

Year Ended December 31,

	2004	2003	2002	2001	2000
			(In thousands)		
Stock-based Charges:					
Revenue	$	$ 1,119	$ 1,501	$ 2,456	$ 6,233
Cost of revenue		16	134	383	607
Sales and marketing	301	3,795	63,848	71,188	45,148
Product and website development		15	127	361	572
General and administrative	518	164	1,297	6,237	3,095
Restructuring charges		2,140			
	$ 819	$ 7,249	$ 66,907	$ 80,625	$ 55,655

	December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and short-term investments	$ 59,859	$ 35,517	$ 80,463	$ 38,272	$ 167,576
Working capital (deficiency)	1,059	(70,729)	(80,763)	(31,888)	253,638
Total assets	150,504	153,548	379,208	615,037	893,350
Obligation under capital lease	2,765	1,904			
Total stockholders equity	57,393	328	38,730	183,256	603,479

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

You should read the following discussion in conjunction with our audited Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002 and related notes included in Part II Item 8. Financial Statements and Supplementary Data.

Overview

Our History

We were incorporated in 1993 under the name of InfoTouch Corporation with the objective of establishing an interactive network of real estate kiosks for consumers to search for homes. In 1996, we began to develop the technology to build and operate real estate related Internet sites. In 1996, we entered into a series of agreements with NAR and several investors and transferred technology and assets to a newly-formed subsidiary, which ultimately became RealSelect, Inc. RealSelect, Inc. in turn entered into a number of formation agreements with, and issued cash and common stock representing a 15% ownership interest in RealSelect, Inc. to, NAR in exchange for the rights to operate the REALTOR.com® website and pursue commercial opportunities relating to the listing of real estate on the Internet. That 15% ownership in RealSelect, Inc. was exchanged for stock in Homestore.com®, Inc. in August 1999. Our initial operating activities primarily consisted of recruiting personnel, developing our website content and raising our initial capital and we began actively marketing our advertising products and services to real estate professionals in January 1997. We changed the corporate name to Homestore.com®, Inc. in August 1999. We changed our name to Homestore, Inc. in May 2002.

In recent years, our company has faced a number of difficult challenges. After discovering accounting irregularities in late 2001, we restated our financial statements for 2000 and the first three quarters of 2001. In the wake of these accounting irregularities and subsequent restatements, we have faced:

- numerous lawsuits, including a consolidated securities class action and derivative litigation;
- an SEC investigation of the company and our accounting practices;
- contractual disputes with our customers and partners;
- limited financial resources and the need for cost reduction measures;
- listing maintenance issues with The NASDAQ National Market; and
- replacement of the former executive management team, some of whom have pled guilty to criminal charges.

We believe that we have addressed each of these challenges, while recognizing that many risks persist. See Item 1, Business Risk Factors, contained in Part I to this Form 10-K for more information.

During this time of uncertainty, many of our customers and potential customers have expressed concerns about our ability to provide value-added products and services. At the same time, we have modified our product and service offerings and have introduced new pricing structures that we believe better reflect the value of our products and services. We believe that the changes in our products and service offerings have begun to be accepted by our customers, despite initial resistance by some.

We have implemented four restructurings during the last three years. These restructurings were designed to focus our business and to eliminate redundancies in our organization. We believe these restructurings were necessary to address both our product and service offerings and our cost structure.

Our Business

We have created an online service that is the leading consumer destination on the Internet for home and real estate-related information based on the number of visitors, time spent on our websites and number of property listings. We provide a wide variety of information and tools for consumers and are a leading supplier of online media and technology solutions for real estate industry professionals, advertisers and providers of home and real estate-related products and services.

To provide consumers with timely and comprehensive real estate listings, access to real estate professionals and other home and real estate-related information and resources, we have established relationships with key industry participants. These participants include real estate market leaders such as NAR, NAHB, hundreds of MLSs, the MHI, and leading real estate franchisors, including the six largest franchises, brokers, builders and apartment owners and managers. Under our agreement with NAR, we operate NAR s official website, REALTOR.com®. Under our agreement with NAHB, we operate its new home listing website, HomeBuilder.com™. Under our agreements with NAR, NAHB, and MHI we receive preferential promotion in their marketing activities.

Business Trends and Conditions

In recent years, our business has been, and we expect will continue to be, influenced by a number of macroeconomic, industry-wide and product-specific trends and conditions:

Market and economic conditions. In recent years, the U.S. economy has experienced low interest rates, and volatility in the equities markets. Against this backdrop, housing starts have remained strong, while the supply of apartment housing has generally exceeded demand. At the same time, our business model has shifted from a technology offering to a media model. The foregoing conditions have meant that homebuilders spent less on advertising, given the strong demand for new houses. Conversely, apartment owners have not spent as much money on advertising, as they have sought to achieve cost savings during the difficult market for apartment owners. Both of these trends have impacted our ability to grow our business. The impact of the recent rise in interest rates on job creation and other economic factors is difficult to gauge and creates uncertainty as to whether these trends will continue.

Evolution of Our Product and Service Offerings and Pricing Structures.

Media Service segment: Our Media segment evolved as a business providing Internet applications to real estate professionals. In recent years, it became apparent that our customers valued the media exposure that the Internet offered them, but not the actual technology that we were offering. Many of our customers objected to our proposition that they purchase our templated website in order to gain access to our networks. In addition, we were charging a fixed price to all customers regardless of the market they operated in or the size of their business.

In 2003, we responded to our customers needs and revamped our service offerings. We began to price our product based on the size of the market and the number of properties they displayed. For many of our customers this change led to substantial price increases over our former technology pricing. This change has been reasonably well-accepted by our customers, however, it has caused us to lose some customers. While we do not expect this trend to continue, it could materially and adversely impact our Media Segment revenue.

Software segment: In our Software segment, Top Producer® introduced a monthly subscription model of an online application in late 2002. This had a negative impact on our revenues over the first eighteen months of this offering as we attempted to build the subscriber base. While our desktop product is still attractive to some real estate professionals, our customer base continues to shift to the online application and we believe it will completely replace our desktop product over the next year.

Print segment: The uncertain economic conditions since 2001 have had an adverse effect on our Welcome Wagon® business. Our primary customers are small local merchants trying to reach new movers and the economic conditions have negatively impacted the small business more than other businesses. These economic conditions have caused a significant decline in our revenue in this segment over the past three years. Although we are starting to see some improvement in market conditions in some geographic areas, it could take considerable time before this segment yields meaningful growth, if at all.

Investment Strategy: Because of the limited resources we have available, we have instituted a staged investment strategy. Starting in Mid-2002, we began conceiving and executing the repositioning of REALTOR.com®, Top Producer®, and our retail advertising activities. Our improved performance is entirely related to the improvement in those three businesses, which, in turn, gives us increasing confidence in the longer term results that we should be able to generate from our current and planned investments in other areas of our business. We are now focusing on investing in and improving our RENTNET.com®, HomeBuilder.com™, and Welcome Wagon® businesses and expect to continue to do so through much of 2005 and possibly into 2006. We believe that HomeBuilder.com™ and RENTNET.com® will begin contributing to our overall growth in the second half of 2005. The process of integrating Welcome Wagon® into our Media Services businesses will require patience, but could represent a very large market opportunity for us.

Dispositions

On December 21, 2004, the Company entered into an Asset Purchase Agreement with Newstar Systems, Inc. (Newstar) pursuant to which the Company agreed to sell its Computer for Tracts (CFT) software business, which had been reported as part of the Company s software segment, for a purchase price of approximately $2.5 million in cash. The transaction closed on December 21, 2004, resulting in a gain on disposition of discontinued operations of approximately $1.6 million.

On October 6, 2004, the Company entered into an Asset Purchase Agreement with Wyld Acquisition Corp. (Wyld), a wholly owned subsidiary of Seigel Enterprises, Inc., pursuant to which the Company agreed to sell its Wyldfyre software business, which had been reported as part of the Company s software segment, for a purchase price of $8.5 million in cash. The transaction closed on October 6, 2004, resulting in a gain on disposition of discontinued operations. The sale generated net proceeds of approximately $7.0 million after transaction fees and monies placed in escrow pursuant to the Asset Purchase Agreement. To date, approximately $5.7 million has been recorded as Gain on disposition of discontinued operations.

On March 19, 2002, we entered into an agreement to sell our ConfusmerInfo division, a former subsidiary of iPlace, to Experian Holdings, Inc. (Experian), for $130.0 million in cash. The transaction closed on April 2, 2002. The sale generated net proceeds of approximately $117.1 million after transaction fees and monies placed in escrow. On March 26, 2002, MemberWorks Incorporated (MemberWorks), one of the former owners of iPlace, obtained a court order requiring us to set aside $58.0 million of the proceeds against a potential claim MemberWorks had against us. On August 9, 2002, we reached a settlement in the MemberWorks litigation, in which MemberWorks and certain other former iPlace shareholders received $23.0 million, with the remaining $35.0 million plus accrued interest being transferred to us resulting in net proceeds to us of $94.1 million. In addition, the litigation was dismissed and MemberWorks released all claims against us relating to the sale of iPlace. We have included the cost of the settlement in our results of operations for the year ended December 31, 2002.

The $11.8 million gain associated with the disposition of the ConsumerInfo division was recorded as Gain on disposition of discontinued operations, in the Consolidated Statement of Operations for the year ended December 31, 2002. As part of the sale to Experian, $10.0 million of the purchase price was put in escrow to secure our indemnification obligations (the Indemnity Escrow). In the second quarter of 2003, $2.3 million was released to us from the Indemnity Escrow and recognized as Gain on disposition of discontinued operations. As of December 31, 2004, cash in the Indemnity Escrow was $7.3 million. To the

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extent the Indemnity Escrow is released to us, we will recognize additional gain on disposition of discontinued operations.

The Indemnity Escrow was scheduled to terminate in the third quarter of 2003, but prior to the scheduled termination, Experian demanded indemnification from us for claims made against Experian or its subsidiaries by several parties. See Note 22, Commitments and Contingencies Legal Proceedings to our Consolidated Financial Statements in Item 8 in this Form 10-K.

Pursuant to SFAS No. 144, the Consolidated Financial Statements of the Company for all periods presented reflect the disposition of its Wyldfyre, CFT, and ConsumerInfo divisions as discontinued operations. Accordingly, the revenue, costs and expenses, and cash flows of these divisions have been excluded from the respective captions in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows and have been reported as Loss from discontinued operations, net of applicable income taxes of zero; and as Net cash provided by (used in) discontinued operations. Total revenue and loss from discontinued operations are reflected below:

	Year Ended December 31,		
	2004	2003	2002
Revenue	$ 9,137	$ 12,788	$ 33,107
Total expenses	9,816	16,069	39,373
Loss from discontinued operations	$ (679)	$ (3,281)	$ (6,266)

The calculation of the gain on the sale of discontinued operations is as follows (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Gross proceeds from sale	$ 10,981	$ 2,300	$ 130,000
Less:			
Cash subject to escrow	850		10,000
Net assets sold	2,210		106,321
Transaction costs	627		2,918
Cash and Homestore stock received from purchase of iPlace		(230)	(1,029)
Gain on disposition of discontinued operations	$ 7,294	$ 2,530	$ 11,790

The cash and stock received from the purchase of iPlace relates to the settlement of the original escrow related to the Company s purchase of iPlace.

Critical Accounting Policies, Estimates and Assumptions

Our discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, uncollectible receivables, intangible and other long-lived assets and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements: revenue recognition; valuation allowances, specifically the allowance for doubtful accounts; valuation of goodwill, identified intangibles and other long-lived assets; accounting for business combinations; and legal contingencies.

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Management has discussed the development and selection of the following critical accounting policies, estimates and assumptions with the Audit Committee of our Board of Directors and the Audit Committee has reviewed these disclosures.

Revenue Recognition We derive our revenue primarily from two sources:

- software revenue, which includes software licenses, software development, hardware services and support revenue which includes software maintenance, training, consulting and website hosting revenue; and
- advertising revenue for running online advertising on our websites or offline advertising placed in our publications.

As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period.

We recognize revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition , and Emerging Issues Task Force Issue (EITF) 00-21, Revenue Arrangements with Multiple Deliverables . Revenue is recognized only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

We assess collection based on a number of factors, including past transaction history with the customer and the credit worthiness of the customer. We do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash. Cash received in advance is recorded as deferred revenue until earned.

Software revenue We generally license our software products in three ways:

- on a one-year term basis;
- on a perpetual basis; and
- on a monthly subscription basis.

Our hosting arrangements require customers to pay a fixed fee and receive service over a period of time, generally one year.

We apply the provisions of Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9 Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, to all transactions involving the sale of software. Software license revenue is recognized upon all of the following criteria being satisfied:

- the execution of a license agreement;
- product delivery;
- fees are fixed or determinable;
- collectibility is reasonably assured; and
- all other significant obligations have been fulfilled.

For arrangements containing multiple elements, such as software license fees, consulting services and maintenance, and where vendor-specific objective evidence (VSOE), of fair value exists for all undelivered elements, we account for the delivered elements in accordance with the residual method prescribed by SOP 98-9. For arrangements in which VSOE does not exist for the undelivered element, including specified upgrades, revenue is deferred and not recognized until either VSOE is established or delivery of the element without VSOE has occurred. We also generate non-recurring revenue from consulting fees for implementation, installation, data conversion and training related to the use of our proprietary and third-party licensed products. We recognize revenue for these services as they are performed, as they are principally contracted for

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on a time and material basis. Our arrangements generally do not include acceptance clauses. However, if an arrangement includes an acceptance clause, acceptance occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period. Certain software products are sold as subscriptions, and accordingly, revenue is deferred and recognized ratably over the term of the contract which is typically based on a one-year renewable term.

We recognize revenue from maintenance services ratably over the contract term. Our training and consulting services are billed based on hourly rates and we generally recognize revenue as these services are performed. Payments for maintenance services are generally made in advance and are non-refundable. However, at the time of entering into a transaction, we assess whether any services included within the arrangement will require us to perform significant work either to alter the underlying software or to build additional complex interfaces so that the software performs as the customer requests. If these services are included as part of the arrangement and management is able to accurately estimate the progression to completion, we recognize the entire fee using the percentage of completion method. We estimate the percentage of completion based on an estimate of total costs incurred to date as a percentage of estimated total costs to complete the project, and we monitor our progress against plan to insure the our estimates are materially accurate. We recognize estimated losses in the periods in which such losses are reasonably expected. For projects in which we are unable to estimate its progression to completion, such revenue is recognized in the period in which the project is completed. Percentage of completion projects ceased to become a material amount of our revenue after 2002.

Advertising Revenue We sell online and offline advertising. Online advertising revenue includes three revenue streams:

- impression based,
- fixed fee subscriptions; and
- variable, performance based agreements.

The impressions based agreements range from spot purchases to 12 month contracts. The impression based revenue is recognized based upon actual impressions delivered and viewed by a user in a period. The fixed fee subscription revenue is recognized ratably over the period in which the services are provided. The affiliate revenue is recognized in the period in which the affiliate partner provides the services. We measure performance related to advertising obligations on a monthly basis prior to the recording of revenue. Offline advertising revenue is recognized when the publications in which the advertising is displayed are shipped.

We record and measure the fair value of equity received in exchange for advertising services in accordance with the provisions of EITF 00-8, Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods or Services.

Allowance for Doubtful Accounts

Our estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount to be reserved. First, we evaluate specific accounts where we have information that the customer may have an inability to meet its financial obligations. In these cases, we use our judgment, based on the best available facts and circumstances, and record a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, a general reserve is established for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change (i.e. higher than expected defaults or an unexpected material adverse change in a major customer s ability to meet its financial obligation to us), our estimates of the recoverability of amounts due to us could be reduced or increased by a material amount.

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Valuation of Goodwill, Identified Intangibles and Other Long-lived Assets

We test goodwill for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets and test intangible assets and property, plant and equipment for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We assess the impairment of goodwill, identifiable intangible assets and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- a significant decline in actual and projected revenue;
- a significant decline in the market value of our common stock;
- a significant decline in performance of certain acquired companies relative to their original projection;
- a significant difference between our net book value and our market value;
- a significant decline in our operating results relative to our operating forecasts;
- a loss of key customer relationships coupled with the renegotiation of existing arrangements;
- a significant change in the manner of our use of the acquired assets or the strategy for our overall business;
- a significant decrease in the market value of an asset;
- a shift in technology demands and development; and
- a significant turnover in key management or other personnel.

When we determine that the carrying value of goodwill, other intangible assets and other long lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. In the third quarter of 2003 and in the fourth quarter of 2003 and 2002, we recognized an impairment of our long-lived assets. See Note 5, Impairment of Long-lived Assets, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K.

We adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* in January 2002. Under SFAS No. 142, goodwill is no longer amortized, but is tested for impairment at a reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value amount. Events or circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, significant declines in our stock price for a sustained period or significant underperformance relative to expected historical or projected future operating results.

In testing for a potential impairment of goodwill, we first compare the estimated fair value of each reporting unit with book value, including goodwill. If the estimated fair value exceeds book value, goodwill is considered not to be impaired and no additional steps are necessary. If, however, the fair value of the respective reporting unit is less than book value, then we are required to compare the carrying amount of the goodwill with its implied fair value. The estimate of implied fair value of goodwill may require independent valuations of certain internally generated and unrecognized intangible assets such as our subscriber base, software and technology and patents and trademarks. If the carrying amount of our goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to the excess.

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Legal Contingencies

We are currently involved in certain legal proceedings, as discussed in Note 21, Settlements of Disputes and Litigation and Note 22, Commitments and Contingencies Legal Proceedings to our Consolidated Financial Statements in Item 8 in this Form 10-K. For those matters where we have reached agreed-upon settlements, we have estimated the amount of those settlements and accrued the amount of the settlement in our financial statements. Because of the uncertainties related to both the amount and range of loss on the remaining pending litigation, we are unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions in our estimates of the potential liability could materially impact our results of operations and financial position.

Results of Operations

We have only a limited operating history, and our business model has been modified over the past two years. Our prospects should be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets such as the Internet. To address these risks, we must, among other things, be able to continue to:

- respond to highly competitive developments;
- attract, retain and motivate qualified personnel;
- implement and successfully execute our marketing plans;
- continue to upgrade our technologies;
- develop new distribution channels; and
- improve our operational and financial systems.

Although our revenue grew significantly in our early history, during recent periods, we have been unable to sustain this growth and have had to reduce our expense structure. Therefore, you should not consider our historical growth indicative of future revenue levels or operating results. In order to reduce our operating cost structure to a sustainable level commensurate with our revenues, we have gone through four restructurings during the last three years. We may never achieve net income, and, if we do, we may not be able to sustain it. A more complete description of other risks relating to our business is set forth in Part I Item 1. Business Risk Factors.

	Year Ended December 31,		
	2004	**2003**	**2002**
		(In thousands)	
Consolidated Statement of Operations Data:			
Revenue(1)	$ 216,860	$ 198,227	$ 219,867
Related party revenue		7,695	31,158
Total revenue	216,860	205,922	251,025
Cost of revenue(1)	50,829	56,569	73,622
Gross profit	166,031	149,353	177,403

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	Year Ended December 31,		
	2004	2003	2002
	(In thousands)		
Operating expenses:			
Sales and marketing(1)	88,388	101,122	161,554
Product and website development(1)	15,362	17,065	25,497
General and administrative(1)	68,442	65,333	83,042
Amortization of intangible assets(1)	7,894	21,863	34,699
Restructuring charges(1)	1,316	4,100	12,057
Impairment of long-lived assets		26,999	3,482
Litigation settlement	2,168	63,600	23,000
Total operating expenses	183,570	300,082	343,331
Loss from operations	(17,539)	(150,729)	(165,928)
Interest income (expense), net	672	(406)	2,673
Gain on settlement of distribution agreement		104,071	
Other income (expense), net	2,366	691	(5,694)
Loss from continuing operations	(14,501)	(46,373)	(168,949)
Gain on disposition of discontinued operations	7,294	2,530	11,790
Income from discontinued operations	(679)	(3,281)	(6,266)
Net loss	$ (7,886)	$ (47,124)	$ (163,425)

(1) The following chart summarizes the stock-based charges that have been included in the following captions for the periods presented:

	Year Ended December 31,		
	2004	2003	2002
	(In thousands)		
Revenue	$	$ 1,119	$ 1,501
Cost of revenue		16	134
Sales and marketing	301	3,795	63,848
Product and website development		15	127
General and administrative	518	164	1,297
Restructuring charges		2,140	
	$ 819	$ 7,249	$ 66,907

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	Year Ended December 31,		
	2004	2003	2002
	(In thousands)		
As a Percentage of Revenue:			
Revenue	100%	96%	88%
Related party revenue		4	12
Total revenue	100	100	100
Cost of revenue	23	27	29
Gross profit	77	73	71
Operating expenses:			
Sales and marketing	41	49	65
Product and website development	7	8	10
General and administrative	32	32	33
Amortization of intangible assets	4	11	14
Restructuring charges		2	5
Impairment of long-lived assets		13	1
Litigation settlement	1	31	9
Total operating expenses	85	146	137
Loss from operations	(8)	(73)	(66)
Interest income (expense), net			1
Gain on settlement of distribution agreement		50	
Other income (expense), net	1		(2)
Loss from continuing operations	(7)	(23)	(67)
Gain on disposition of discontinued operations	3	1	5
Income from discontinued operations		(1)	(3)
Net Loss	(4)%	(23) %	(65)%

For the Years Ended December 31, 2004 and 2003

Revenue and Related Party Revenue

Revenue, including non-cash stock-based charges, increased approximately $10.9 million, or 5%, to $216.8 million for the year ended December 31, 2004 from revenue of $205.9 million for the year ended December 31, 2003. The increase in revenue was due to increases of $6.5 million in the Media Services segment, $3.2 million in the Software segment, and $1.2 million in the Print segment. These increases by segment are explained in the segment information below.

Cost of Revenue

Cost of revenue, including non-cash stock-based charges, decreased approximately $5.7 million, or 10%, to $50.8 million for the year ended December 31, 2004 from $56.5 million for the year ended December 31, 2003. The decrease was primarily due to our continued cost cutting efforts over the past three years that resulted in restructuring charges in the first and third quarters of 2002 and the fourth quarter of 2003. The reductions consisted of decreases in personnel related costs of $1.7 million and decreases in royalties and fees of $4.9 million, partially offset by increases in other direct costs of $0.9 million. The decrease in royalties and fees was primarily due to the Media Services segment renewing its contracts with MLSs on terms that do not require us to pay future royalties.

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Gross margin percentage for the year ended December 31, 2004 was 77%, compared to 73% for the year ended December 31, 2003. The increase in gross margin percentage was primarily due to the factors mentioned above.

Operating Expenses

Each of our operating expense lines, with the exception of General and Administrative, have declined over the past three years due to our cost cutting efforts that resulted in restructuring charges in the first and third quarters of 2002 and the fourth quarter of 2003. We have provided the major categories of changes in each of the operating expenses so our investors can understand the breadth of changes we have made to our operating expense structure.

Sales and Marketing. Sales and marketing expenses, including non-cash stock-based charges, decreased approximately $12.7 million, or 13%, to $88.4 million for the year ended December 31, 2004 from $101.1 million for the year ended December 31, 2003. The overall decrease was primarily due to reductions in personnel related costs of $2.8 million due to our restructuring efforts, reductions in stock based charges of $4.6 million due to the expiration of previous marketing agreements, reductions in online marketing and portal costs of $2.6 million due to renegotiated agreements, reductions in depreciation expense of $1.4 million due to certain assets being fully depreciated, and other cost reductions of $1.3 million.

Product and Website Development. Product and website development expenses, including non-cash stock-based charges, decreased approximately $1.7 million, or 10%, to $15.4 million for the year ended December 31, 2004 from $17.1 million for the year ended December 31, 2003. The decrease was primarily due to decreases in personnel related costs of $1.0 million due to our restructuring efforts and other cost reductions of $0.7 million.

General and Administrative. General and administrative expenses, including non-cash stock-based charges, increased approximately $3.1 million, or 5%, to $68.4 million for the year ended December 31, 2004 from $65.3 million for the year ended December 31, 2003. The increase was primarily due to a $7.2 million loss contingency accrual for the potential advancement of legal costs of former officers and directors and increases in accounting fees of $2.6 million primarily due to the cost of compliance with Section 404 of the Sarbanes-Oxley Act. These increases were offset by decreases in personnel related costs of $4.3 million due to our restructuring efforts, decreases in bad debt expense of $1.9 million resulting from a closer alignment between our sales force compensation and tighter credit and collection policies, and other operating cost decreases of $0.5 million. Our general and administrative expenses continue to be larger as a percentage of our revenues than many companies of our size. These expenses have been impacted by our legal costs as well as our costs to prepare for compliance in 2004 with Section 404 of the new Sarbanes-Oxley legislation. We will continue to focus on reducing these expenses, but some of these costs, such as our corporate office costs, may not be reduced for a number of years and some, like our legal expense, are not totally within our control.

Amortization of Intangible Assets. Amortization of intangible assets was $7.9 million for the year ended December 31, 2004 compared to $21.9 million for the year ended December 31, 2003. The decrease in amortization was due to the impairment of intangible assets charges under SFAS Nos. 144 and 142, during the year ended December 31, 2003 as well as certain intangible assets becoming fully amortized during 2004.

Restructuring Charges. We have taken four restructuring charges: in the fourth quarter of 2001, the first quarter of 2002, the third quarter of 2002 and the fourth quarter of 2003. All of these charges were a part of plans approved by our Board of Directors, with the objective of eliminating duplicate resources and redundancies.

A summary of each is outlined below. We have also revised previous estimates from time to time.

Restructuring charges were $1.3 million for the year ended December 31, 2004 as a result of revisions to estimates of our sublease assumptions of our remaining San Francisco office space and changes in the exchange rates for our Canadian lease. There were no new restructuring plans approved during the year ended December 31, 2004.

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Restructuring charges were $4.1 million for the year ended December 31, 2003, related to restructuring plans approved in fourth quarter of 2003. As part of this restructuring and integration plan, we undertook a review of our existing operations and elected to change our management structure and identified and notified approximately 95 employees whose positions with the Company were eliminated. The work force reductions affected approximately 7 in research and development, 17 in production, 37 in sales and marketing and 34 in administrative functions resulting in a charge of $3.5 million. In addition, we revised the estimates on the first quarter 2002 and the fourth quarter 2001 restructuring plans and took an additional charge of $560,000 to properly reflect our current estimates. The primary factor in this change in estimate was the continued slow demand for office space in San Francisco where we still have one floor of a large facility available for sublease.

Restructuring charges were $12.1 million for the year ended December 31, 2002, related to restructuring plans approved in the first and third quarters of 2002. In the first quarter of 2002, we took a charge of $2.3 million. As part of this restructuring and integration plan, we undertook a review of our existing locations and elected to close offices and identified and notified approximately 270 employees whose positions with us were eliminated. The work force reductions affected approximately 30 members of management, 40 in research and development, 140 in sales and marketing and 60 in administrative functions. This charge consisted of employee termination benefits of $1.7 million and facility closure charges of approximately $600,000. In the third quarter of 2002, we took a charge of $3.6 million. As part of this restructuring and integration plan, we undertook a review of our existing locations and elected to close an office and identified and notified approximately 190 employees whose positions with us were eliminated. The work force reductions affected approximately 30 in research and development, 10 in production, 140 in sales and marketing and 10 in administrative functions. This charge consists of employee termination benefits of $1.6 million and facility closure charges of approximately $2.0 million. We also revised the estimates on previous restructuring plans and took an additional charge of $6.2 million to properly reflect our current expectations. The primary factor in this change in estimate was the decline in demand for office space in San Francisco.

In the fourth quarter of 2001, we recorded a charge of $35.8 million. As part of this restructuring and integration plan, we undertook a review of our existing locations and elected to close a number of satellite offices and identified and notified approximately 700 employees whose positions with us were eliminated. The work force reductions affected approximately 150 members of management, 100 in research and development, 200 in sales and marketing and 250 in administrative functions. This charge consisted of employee termination benefits of $6.4 million; facility closure charges of $20.8 million, comprised of $12.8 million in future lease obligations, net of estimated sublease income of $11.9 million, and $8.0 million of non-cash fixed asset disposals related to vacating duplicate facilities and decreased equipment requirements due to lower headcount; non-cash write-offs of $2.9 million in other assets related to exited activities; and accrued future payments of $5.7 million for existing contractual obligations with no future benefit to us.

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A summary of activity related to the four restructuring charges and the changes in our estimates is as follows (in thousands):

	Employee Termination Benefits	Stock-based Charges for Accelerated Vesting	Lease Obligations and Related Charges	Asset Write-offs	Contractual Obligations	Total
December 2001 restructuring charge	$ 6,364	$	$ 12,782	$ 10,917	$ 5,733	$ 35,796
Cash paid	(3,511)		(137)		(141)	(3,789)
Non-cash charges				(10,917)		(10,917)
Restructuring accrual at December 31, 2001	2,853		12,645		5,592	21,090
March 2002 restructuring charge	1,720		309	260		2,289
September 2002 restructuring charge	1,590		2,033			3,623
Cash paid	(4,916)		(5,920)		(3,631)	(14,467)
Sale of a subsidiary	(156)					(156)
Change in estimates	(638)		7,611		(798)	6,175
Non-cash charges			488	(260)		228
Restructuring accrual at December 31, 2002	453		17,166		1,163	18,782
December 2003 restructuring charge	1,401	2,140				3,541
Cash paid	(797)		(6,476)		(576)	(7,849)
Changes in estimates	(156)		919		(203)	560
Non-cash charges		(2,140)				(2,140)
Restructuring accrual at December 31, 2003	$ 901	$	$ 11,609	$	$ 384	$ 12,894
Cash paid	(809)		(4,564)		(11)	(5,384)
Changes in estimates	(71)		1,359		28	1,316
Restructuring accrual at December 31, 2004	$ 21	$	$ 8,404	$	$ 401	$ 8,826

With the exception of payments associated with the San Francisco and other office lease commitments which will be paid through 2006, substantially all of the remaining restructuring liabilities at December 31, 2004 will be paid during 2005. Any further changes to the accruals based upon current estimates will be reflected through the acquisition and restructuring charges line in the Consolidated Statement of Operations.

Impairment of Long-lived Asset. In conjunction with certain business units continuing to perform below our expectations, as required by SFAS Nos. 144 and 142, we performed an impairment analysis as of September 30, 2003.

Our analysis resulted in a charge of $13.0 million comprised of impairments of $11.7 million of identifiable intangible assets relating to our acquisitions of SpringStreet and Move.com, Inc., and $1.3 million of prepaid distribution expense. In addition, in conjunction with the settlement of the dispute with Cendant, we relinquished certain exclusive data rights and other rights. As a result, certain intangible assets associated with those rights no longer have value to us and, accordingly, we recorded an impairment charge of $12.2 million. Both charges were recorded in the quarter ended September 30, 2003. In the fourth quarter of 2003, specific events and changes in circumstances indicated a potential impairment. Those specific events included Homestore revising its implementation plan of its enterprise resource planning system. As a result of the revision, the decision was made to terminate the implementation of one aspect of the application.

This decision resulted in a charge of $1.8 million. There were no impairment charges for the year ended December 31, 2004.

Litigation Settlement. We have recorded a litigation settlement charge of $2.2 million in our operating results for the year ended December 31, 2004. During 2003, we reached a settlement in the Securities Class Action Lawsuit and recorded a charge of $63.6 million.

Stock-based Charges. The following chart summarizes the stock-based charges that have been included in the following captions for each of the periods presented (in thousands):

	Year Ended December 31,	
	2004	**2003**
Revenue	$	$ 1,119
Cost of revenue		16
Sales and marketing	301	3,795
Product and website development		15
General and administrative	518	164
Restructuring charges		2,140
	$ 819	$ 7,249

Stock-based charges decreased by $6.4 million to $0.8 million for the year ended December 31, 2004 from $7.2 million for the year ended December 31, 2003. The decrease was primarily due to the termination of an agreement with AOL.

Interest Income (Expense), Net

Interest income (expense), net, increased $1.1 million to income of $672,000 for the year ended December 31, 2004, from net expense of $406,000 for the year ended December 31, 2003, primarily due to increases in short-term investment balances and higher interest rates on those balances.

Gain on Settlement of Distribution Agreement

In 2003, we entered into a new marketing agreement with AOL that resolved our dispute with AOL and terminated our obligations under the old agreement. In connection with the settlement, we reduced our accrued distribution obligation and other accrued liabilities by $189.9 million and $4.2 million, respectively, and allowed AOL to fully draw down on an existing $90.0 million letter of credit secured by restricted cash. Accordingly, we recorded a gain on settlement of the distribution agreement of $104.1 million for the year ended December 31, 2003. There were no similar transactions in 2004.

Other Income (Expense), Net

Other income, net, increased $1.7 million to $2.4 million for the year ended December 31, 2004 compared to $691,000 for the year ended December 31, 2003 primarily due to a $1.4 million gain realized on the sale of an office building owned by the Company and a $400,000 gain on the sale of other assets.

Gain on Disposition of Discontinued Operations and Income from Discontinued Operations

On October 6, 2004, we sold our Wyldfyre division for $8.5 million in cash and recorded a gain on disposition of discontinued operations of $5.7 million. On December 21, 2004, we sold our Computers for Tracts division for $2.5 million and recorded a gain on disposition of discontinued operations of $1.6 million. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Consolidated Financial Statements reflect these as discontinued operations. The results of operations for the Wyldfyre and Computer for Tracts divisions included operating losses of $679,000 and $3.3 million for the years ended December 31, 2004 and

December 31, 2003, respectively.

On April 2, 2002, we sold our ConsumerInfo division for $130.0 million in cash to Experian. We recorded a gain on disposition of discontinued operations of $2.5 million during the year ended December 31, 2003, as a result of our receipt of cash and stock valued at $230,000 released from the escrow related to our purchase of iPlace and our receipt of $2.3 million in cash from the escrow related to the sale of our ConsumerInfo division.

Income Taxes

As a result of operating losses and our inability to recognize a benefit from our deferred tax assets, we have not recorded a provision for income taxes for the years ended December 31, 2004 and December 31, 2003. As of December 31, 2004, we had $975.9 million of net operating loss carryforwards for federal income tax purposes, which expire beginning in 2008. We have provided a full valuation allowance on our deferred tax assets, consisting primarily of net operating loss carryforwards, due to the likelihood that we may not generate sufficient taxable income during the carry-forward period to utilize the net operating loss carryforwards.

Segment Information

Segment information is presented in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. This standard is based on a management approach, which requires segmentation based upon our internal organization and disclosure of revenue and operating expenses based upon internal accounting methods. We evaluate performance and allocate resources based on three segments, consisting of Media Services, Software, and Print. This is consistent with the data that is made available to our management to assess performance and make decisions.

The expenses presented below for each of the business segments include an allocation of certain corporate expenses that are identifiable and benefit those segments and are allocated for internal management reporting purposes. The unallocated expenses are those corporate overhead expenses that are not directly attributable to a segment and include: corporate expenses, such as finance, legal, internal business systems, and human resources; amortization of intangible assets; litigation settlement charges; impairment charges; stock-based charges; and acquisition and restructuring charges. There is no inter-segment revenue. Assets and liabilities are not fully allocated to segments for internal reporting purposes.

Summarized information by segment as excerpted from internal management reports is as follows (in thousands):

	Year Ended									
	December 31, 2004					**December 31, 2003**				
	Media	**Software**	**Print**	**Unallocated**	**Total**	**Media**	**Software**	**Print**	**Unallocated**	**Total**
Revenue	$ 150,053	$ 18,210	$ 48,597	$	$ 216,860	$ 143,510	$ 15,018	$ 47,394	$	$ 205,922
Cost of revenue	24,905	5,473	19,619	832	50,829	29,796	6,001	19,363	1,409	56,569
Gross profit (loss)	125,148	12,737	28,978	(832)	166,031	113,714	9,017	28,031	(1,409)	149,353
Sales and marketing	63,358	4,771	19,547	712	88,388	69,485	6,234	19,434	5,969	101,122
Product and website development	10,405	4,705	251	1	15,362	11,261	5,341	442	21	17,065
General and administrative	20,236	2,799	10,371	35,036	68,442	22,420	2,438	9,763	30,712	65,333
Amortization of intangible				7,894	7,894				21,863	21,863

assets										
Litigation settlement				2,168	2,168				63,600	63,600
Restructuring charges				1,316	1,316				4,100	4,100
Impairment of long-lived assets									26,999	26,999
Total operating expenses	93,999	12,275	30,169	47,127	183,570	103,166	14,013	29,639	153,264	300,082
Income (loss) from operations	$ 31,149	462	$ (1,191)	$ (47,959)	$ (17,539)	$ 10,548	$ (4,996)	$ (1,608)	$ (154,673)	$ (150,729)

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Media Services

Our Media Services segment consists of products and media services that promote and connect real estate professionals to consumers through our REALTOR.com®, HomeBuilder.com™, RENTNET.com® and Homestore.com® websites. In addition, we provide advertising services, including banner ads, sponsorships, integrated text based links and rich media applications to those businesses interested in reaching our targeted audience.

Media Services revenue increased approximately $6.5 million, or 5%, to $150.0 million for the year ended December 31, 2004, compared to $143.5 million for the year ended December 31, 2003. The revenue increase was primarily generated by a $7.7 million increase driven by higher average spending per customer and a $3.6 million increase in advertising driven by higher effective cost-per-thousand impressions and higher sell-through rates. These increases were partially offset by a reduction in revenue from our HomeBuilder and RentNet businesses of $4.8 million. Media Services revenue represented approximately 69% of total revenue for the year ended December 31, 2004 compared to 70% of the total revenue for the year ended December 31, 2003.

Media Services expenses decreased $14.1 million, or 11%, to $118.9 million for the year ended December 31, 2004 from $133.0 million for the year ended December 31, 2003. The decrease was primarily due to decreases in personnel related costs of $4.2 million due to our restructuring efforts, cost of revenue savings of $4.4 million due to a reduction in royalty expense resulting from new MLS agreements eliminating the requirement for future royalties, sales and marketing savings of $3.0 million due to lower online marketing and portal costs associated with renegotiated agreements, and general and administrative savings of $3.5 million due to improved collections resulting in lower bad debt expense. These decreases were partially offset by other operating expense increases of $1.0 million.

Media Services generated operating income of $31.1 million for the year ended December 31, 2004 compared to operating income of $10.5 million for the year ended December 31, 2003. We have announced plans for additional investments in our HomeBuilder and RentNet businesses that could negatively impact our operating income in this segment in the near future. We continue to seek increased revenue through new product offerings and new market opportunities.

Software

Our Software segment is comprised of our Top Producer® business. Our WyldFyre and Computers for Tracts businesses were sold during the year ended December 31, 2004 and have been reclassified as discontinued operations for all periods presented.

Software revenue increased $3.2 million, or 21%, to $18.2 million for the year ended December 31, 2004, compared to $15.0 million for the year ended December 31, 2003. The increase was generated as the Top Producer® subscriber base associated with the new online version of the Top Producer® product has continued to grow since its launch in September 2002 and has surpassed revenue being generated from the desktop version of the product. Software revenue represented approximately 8% of total revenue for the year ended December 31, 2004, compared to 7% of total revenue for the year ended December 31, 2003.

Software expenses decreased $2.3 million, or 12%, to $17.7 million for the year ended December 31, 2004 from $20.0 million for the year ended December 31, 2003. The decrease was primarily due to reductions in personnel related costs due to our restructuring efforts.

Software generated operating income of $0.5 million for the year ended December 31, 2004 compared to an operating loss of $5.0 million for the year ended December 31, 2003 primarily due to factors outlined above.

Print

Our Print segment is comprised of our Welcome Wagon® and Homestore Plans and Publications businesses.

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Print revenue increased $1.2 million, or 3%, to $48.6 million for the year ended December 31, 2004, compared to $47.4 million for the year ended December 31, 2003. The increase was primarily due to an increase in revenue from Welcome Wagon® associated with the new Pinpoint product launched in early 2003. Print revenue represented approximately 23% of total revenue for the year ended December 31, 2004 and the year ended December 31, 2003.

Print expenses increased $0.8 million, or 2%, to $49.8 million for the year ended December 31, 2004 compared to expenses of $49.0 million for the year ended December 31, 2003. The increase was primarily due to an increase in general and administrative expenses.

Print generated an operating loss of $1.2 million for the year ended December 31, 2004, compared to an operating loss of $1.6 million for the year ended December 31, 2003 primarily due to the revenue increase discussed above. We have announced plans for additional investments in our Welcome Wagon® business that could negatively impact our operating results in this segment in the near future. We continue to seek increased revenue through new product offerings and new market opportunities.

Unallocated

Unallocated expenses decreased $106.7 million, or 69% to $48.0 million for the year ended December 31, 2004 from $154.7 million for the year ended December 31, 2003. The decrease was primarily due to a decrease in litigation settlement charges of $61.4 million, impairment of long-lived assets of $27.0 million, amortization of intangibles of $14.0 million due to the impairment charges taken in 2003 as well as certain intangible assets becoming fully amortized during 2004, sales and marketing savings of $5.3 million primarily due to reduced stock based charges as a direct result of the settlement of our agreement with AOL, $4.2 million in reduced personnel related costs due to our restructuring efforts, $2.8 million in reduced restructuring charges, $1.6 million in reduced depreciation expense as certain assets have become fully depreciated during 2004, and other operating cost reductions of $0.2 million. These reductions were offset by our $7.2 million accrual for the potential advancement of legal costs of former officers and directors and $2.6 million in increased accounting fees primarily due to the cost of compliance with Section 404 of the Sarbanes-Oxley Act. We continue to seek reductions in our corporate overhead expenses but cannot provide assurances that reductions will be achieved.

For the Years Ended December 31, 2003 and 2002

Revenue and Related Party Revenue

Revenue, including non-cash stock-based charges, decreased approximately $45.1 million, or 18%, to $205.9 million for the year ended December 31, 2003 from revenue of $251.0 million for the year ended December 31, 2002. The decline in revenue was due to decreases of $17.0 million in the Media Services segment, a decrease in the Software segment of $18.2 million, and a decrease in the Print segment of $9.9 million. These declines by segment are explained in the segment information below. Of these declines, $23.5 million was due to declines in related party revenues with $15.1 million in the Media segment and $8.4 million in the Software segment from the expiration of legacy contracts. In the Software segment we sold the Hessel Group in early 2003 resulting in an additional decrease in revenue of $7.4 million.

Cost of Revenue

Cost of revenue, including non-cash stock-based charges, decreased approximately $17.0 million, or 23%, to $56.6 million for the year ended December 31, 2003 from $73.6 million for the year ended December 31, 2002. The decrease was primarily due to our continued cost cutting efforts over the past two years that have resulted in restructuring charges in the first and third quarters of 2002 and the fourth quarter of 2003. The reductions consisted of decreases in personnel related costs of $6.4 million due to restructuring efforts, reductions in royalties and fees of $3.8 million due to changes in certain royalty agreements from percentage of revenue to fixed fee arrangements, reductions in consulting costs of $1.2 million, reductions in hosting and imaging costs of $2.2 million, and reductions in other direct costs of $3.4 million. The decreases in both consulting costs and hosting and imaging costs were due to the elimination of the full service virtual tours business as we switched to a self-service model in mid-2002.

Gross margin percentage for the year ended December 31, 2003 was 73%, compared to 71% for the year ended December 31, 2002. The increase in gross margin percentage was primarily due to the factors mentioned above.

Operating Expenses

Sales and Marketing. Sales and marketing expenses, including non-cash stock-based charges, decreased approximately $60.4 million, or 37%, to $101.1 million for the year ended December 31, 2003 from $161.5 million for the year ended December 31, 2002. The overall decrease was primarily due to decreases in personnel related costs of $10.2 million, decrease in stock-based charges of $60.0 million, decrease in telephone costs of $2.3 million and decrease in other direct costs of $5.8 million, partially offset by increases in online marketing and portal costs of $17.9 million. Personnel and other direct costs decreased primarily due to the implementation of restructuring plans as described above. The increase in online marketing costs was due to an increase in distribution costs associated with traffic acquisition related to our new agreements with AOL, MSN and Yahoo! Stock-based charges primarily decreased due to the termination of the previous agreement with AOL.

Product and Website Development. Product and website development expenses, including non-cash stock-based charges, decreased approximately $8.4 million, or 33%, to $17.1 million for the year ended December 31, 2003 from $25.5 million for the year ended December 31, 2002. The decrease was primarily due to decreases in personnel related costs of $1.5 million, decreases in depreciation expense of $1.2 million and decreases in other direct costs of $5.7 million. These decreases were primarily due to the implementation of restructuring plans as described above.

General and Administrative. General and administrative expenses, including non-cash stock-based charges, decreased approximately $17.7 million, or 21%, to $65.3 million for the year ended December 31, 2003 from $83.0 million for the year ended December 31, 2002. The decrease was primarily due to decreases in personnel related costs of $6.7 million, reductions in bad debt expense of $3.0 million, reductions in consulting expense of $1.3 million, reductions in outside legal and accounting fees of $6.2 million, reductions in stock-based charges of $1.1 million, partially offset by an increase in other direct costs of $0.6 million. The decreases in personnel related costs and other overhead were as we expected and primarily due to the implementation of the restructuring plans described above. The decrease in bad debt expense related to a closer alignment between our sales force compensation and tighter credit and collection policies.

Amortization of Intangible Assets. Amortization of intangible assets was $21.9 million for the year ended December 31, 2003 compared to $34.7 million for the year ended December 31, 2002. The decrease in amortization was due to the impairment of intangible assets charges under SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, in the quarters ended December 31, 2002, and September 30, 2003 as well as certain intangible assets becoming fully amortized during 2003.

Restructuring Charges. Restructuring charges were $4.1 million for the year ended December 31, 2003. We took a charge of $3.5 million related to restructuring plans approved in the fourth quarter of 2003. As part of this restructuring and integration plan, we undertook a review of our existing operations and elected to change our management structure and identified and notified approximately 95 employees whose positions with the Company were eliminated. The work force reductions affected approximately 7 in research and development, 17 in production, 37 in sales and marketing and 34 in administrative functions. In addition, we revised the estimates on the first quarter 2002 and the fourth quarter 2001 restructuring plans and took an additional charge of $560,000 to properly reflect our current estimates. The primary factor in this change in estimate was the continued slow demand for office space in San Francisco.

Restructuring charges were $12.1 million for the year ended December 31, 2002, related to restructuring plans approved in the first and third quarters of 2002. In the first quarter of 2002, we took a charge of $2.3 million. In the third quarter of 2002 we took a charge of $3.6 million. We also revised the estimates on previous restructuring plans and took an additional charge of $6.2 million to properly reflect our current expectations. The primary factor in this change in estimate was the decline in demand for office space in San Francisco.

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Impairment of Long-lived Assets. In conjunction with certain business units continuing to perform below our expectations, as required by SFAS Nos. 144 and 142, we performed an impairment analysis as of September 30, 2003. Our analysis resulted in a charge of $13.1 million comprised of impairments of $11.8 million of identifiable intangible assets relating to our acquisitions of SpringStreet and Move.com, Inc., and $1.3 million of prepaid distribution expense. In addition, in conjunction with the settlement of the dispute with Cendant, we relinquished certain exclusive data rights and other rights. As a result, certain intangible assets associated with those rights no longer have value to us and, accordingly, we recorded an impairment charge of $12.1 million. Both charges were recorded in the quarter ended September 30, 2003. In the fourth quarter of 2003, specific events and changes in circumstances indicated a potential impairment. Those specific events included Homestore revising its implementation plan of its enterprise resource planning system. As a result of the revision, the decision was made to terminate the implementation of one aspect of the application. This decision resulted in a charge of $1.8 million.

In January 2002, we adopted SFAS Nos. 144 and 142. We evaluated the impact of our adoption of SFAS No. 142 in the first quarter of 2002 and determined that no impairment charge was required upon the adoption of the standard. During the fourth quarter of 2002, we performed an update of our evaluation due to specific events and changes in the operations of our business including the sustained decline in the value of our stock, revision of our annual operating plan and a decision to sell our Hessel businesses prompted by a loss of a significant customer. The impairment analysis resulted in a charge of $3.5 million in the fourth quarter of 2002, comprised of $1.9 million to property and equipment relating to the shut down of the Hessel businesses and $1.6 million to other assets.

Litigation Settlement. As a result of our settlement of the Securities Class Action Lawsuit, we recorded a litigation settlement charge of $63.6 million in our operating results for the year ended December 31, 2003. During 2002, we reached a settlement with MemberWorks and included the $23.0 million cost of the settlement in our results of operations for the year ended December 31, 2002.

Stock-based Charges. The following chart summarizes the stock-based charges that have been included in the following captions for each of the periods presented (in thousands):

	Year Ended December 31,	
	2003	**2002**
Revenue	$ 1,119	$ 1,501
Cost of revenue	16	134
Sales and marketing	3,795	63,848
Product and website development	15	127
General and administrative	164	1,297
Restructuring charges	2,140	
	$ 7,249	$ 66,907

Stock-based charges decreased by $59.7 million to $7.2 million for the year ended December 31, 2003 from $66.9 million for the year ended December 31, 2002. The decrease was primarily due to the termination of the previous agreement with AOL.

Interest Income (Expense), Net

Interest expense, net of $406,000 in 2003 decreased by $3.1 million from interest income of $2.7 million for the year ended December 31, 2002. This resulted from reduced cash and restricted cash balances and a general decline in market interest rates as well as the recognition of imputed interest on long-term arrangements.

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Gain on Settlement of Distribution Agreement

In 2003, we entered into a new marketing agreement with AOL that resolved our dispute with AOL and terminated our obligations under the old agreement. In connection with the settlement, we reduced our accrued distribution obligation and other accrued liabilities by $189.9 million and $4.2 million, respectively, and allowed AOL to fully draw down on an existing $90.0 million letter of credit secured by restricted cash. Accordingly, we recorded a gain on settlement of the distribution agreement of $104.1 million for the year ended December 31, 2003.

Other Income (Expense), Net

Other income, net of $691,000 for the year ended December 31, 2003 consisted primarily of a gain from the release of proceeds during the first quarter of 2003 from an escrow on the sale of assets in previous quarters. Other expense, net of $5.7 million for the year ended December 31, 2002, consisted primarily of the accretion of the AOL distribution obligation of $14.8 million and other miscellaneous expense of $1.7 million, partially offset by $10.8 million of income from an amendment of an existing agreement.

Gain on Disposition of Discontinued Operations and Income from Discontinued Operations

On April 2, 2002, we sold our ConsumerInfo division for $130.0 million in cash to Experian. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Consolidated Financial Statements reflect this as discontinued operations. We recorded a gain on disposition of discontinued operations of $2.5 million during the year ended December 31, 2003, as a result of our receipt of cash and stock valued at $230,000 released from the escrow related to our purchase of iPlace and our receipt of $2.3 million in cash from the escrow related to the sale of our ConsumerInfo division. During the year ended December 31, 2002, we recorded a gain on the disposition of discontinued operations of $11.8 million as a result of our sale of the ConsumerInfo division. The results of operations of the ConsumerInfo division included operating income of $846,000 for the year ended December 31, 2002.

On October 6, 2004, we sold our Wyldfyre business and on December 21, 2004, we sold our Computers for Tracts business. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Consolidated Financial Statements reflect these as discontinued operations for all periods presented. The results of operations for the Wyldfyre and Computer for Tracts divisions included operating losses of $3.3 million and $7.0 million for the years ended December 31, 2003 and December 31, 2002, respectively.

Income Taxes

As a result of operating losses and our inability to recognize a benefit from our deferred tax assets, we have not recorded a provision for income taxes for the years ended December 31, 2003 and December 31, 2002. As of December 31, 2003, we had $872.6 million of net operating loss carryforwards for federal income tax purposes, which expire beginning in 2008. We have provided a full valuation allowance on our deferred tax assets, consisting primarily of net operating loss carryforwards, due to the likelihood that we may not generate sufficient taxable income during the carry-forward period to utilize the net operating loss carryforwards.

Segment Information

Segment information is presented in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. This standard is based on a management approach, which requires segmentation based upon our internal organization and disclosure of revenue and operating expenses based upon internal accounting methods. As of the beginning of 2003, we combined the previously reported Online Advertising segment with the Media Services segment as we changed the way that we manage and evaluate our businesses. In addition, we changed the names of the Software and Services segment to Software and the Offline Advertising segment to Print. As a result of these changes, we evaluate performance and allocate resources based on three segments, consisting of Media Services, Software, and Print. We have reclassified

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previously reported segment data to conform to the current period presentation. This is consistent with the data that is made available to our management to assess performance and make decisions.

The expenses presented below for each of the business segments include an allocation of certain corporate expenses that are identifiable and benefit those segments and are allocated for internal management reporting purposes. The unallocated expenses are those corporate overhead expenses that are not directly attributable to a segment and include: corporate expenses, such as finance, legal, internal business systems, and human resources; amortization of intangible assets; litigation settlement charges; impairment charges; stock-based charges; and acquisition and restructuring charges. There is no inter-segment revenue. Assets and liabilities are not fully allocated to segments for internal reporting purposes.

Summarized information by segment as excerpted from internal management reports is as follows (in thousands):

	Year Ended									
	December 31, 2003					December 31, 2002				
	Media	**Software**	**Print**	**Unallocated**	**Total**	**Media**	**Software**	**Print**	**Unallocated**	**Total**
Revenue	$ 143,510	$ 15,018	$ 47,394	$	$ 205,922	$ 160,506	$ 33,216	$ 57,303	$	$ 251,025
Cost of revenue	29,796	6,001	19,363	1,409	56,569	38,581	12,078	20,983	1,980	73,622
Gross profit (loss)	113,714	9,017	28,031	(1,409)	149,353	121,925	21,138	36,320	(1,980)	177,403
Sales and marketing	69,485	6,234	19,434	5,969	101,122	65,715	9,435	21,814	64,590	161,554
Product and website development	11,261	5,341	442	21	17,065	14,007	11,266	237	(13)	25,497
General and administrative	22,420	2,438	9,763	30,712	65,333	19,339	6,417	14,077	43,209	83,042
Amortization of intangible assets				21,863	21,863				34,699	34,699
Litigation settlement				63,600	63,600				23,000	23,000
Restructuring charges				4,100	4,100				12,057	12,057
Impairment of long-lived assets				26,999	26,999				3,482	3,482
Total operating expenses	103,166	14,013	29,639	153,264	300,082	99,061	27,118	36,128	181,024	343,331
Income (loss) from operations	$ 10,548	$ (4,996)	$ (1,608)	$ (154,673)	$ (150,729)	$ 22,864	$ (5,980)	$ 192	$ (183,004)	$ (165,928)

Media Services

Our Media Services segment consists of products and media services that promote and connect real estate professionals to consumers through our REALTOR.com®, HomeBuilder.com^{tm}, RENTNET.com® and Homestore.com® websites. In addition, we provide advertising services, including banner ads, sponsorships, integrated text-based links and rich media applications to those businesses interested in reaching our targeted audience. This segment also includes our limited international activities.

Media Services revenue decreased approximately $17.0 million, or 11%, to $143.5 million for the year ended December 31, 2003, compared to $160.5 million for the year ended December 31, 2002. The revenue decrease was primarily due to a reduction in revenue from bulk purchases by a related party (Cendant) that expired in the fourth quarter of 2002 of $15.1 million. Additionally, the revenue decrease was due to a reduction in revenue from our Virtual Tour products of $8.4 million, a reduction in revenue from our network-wide National Advertising Sales products of $5.4 million, and a reduction in revenue from our New Homes and Apartments verticals of $2.1 million and $1.1 million, respectively. These decreases were offset by increases in revenue from our Featured Home and our new Featured Agent products of $7.9 million, our new REALTOR.com® Classified product offering of $4.5 million, and our Find a Lender directory product of $2.7 million, which was launched in late 2002. Media Services revenue represented approximately 70% of total

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revenue for the year ended December 31, 2003 compared to 64% of the total revenue for the year ended December 31, 2002.

Media Services expenses decreased $4.6 million, or 3%, to $133.0 million for the year ended December 31, 2003 from $137.6 million for the year ended December 31, 2002. The decrease was primarily due to decreases in personnel costs of $11.1 million across all operating lines as a result of restructuring efforts. Cost of revenue savings resulted from a $3.5 million reduction in royalty expense resulting from a change in royalty rates and $2.1 million from reduced hosting costs associated with renegotiated agreements. Sales and marketing had increased online marketing costs of $16.3 million due to our new agreements with AOL, MSN and Yahoo!, partially offset by a reduction of $1.7 million in telephone costs, $1.4 million in travel costs, and other reduced operating expenses of $1.1 million.

Media Services operating income decreased primarily as a result of the decline in related party revenue. Our operating income declined to $10.5 million for the year ended December 31, 2003, compared to operating income of $22.9 million for the year ended December 31, 2002. We have reduced the cost structure of this segment and are continuing to seek new revenue opportunities.

Software

Our Software segment is comprised of our Top Producer® business and, in 2002, included The Hessel Group. Our WyldFyre and Computers for Tracts businesses were sold during the year ended December 31, 2004 and have been reclassified as discontinued operations for all periods presented.

Software revenue decreased $18.2 million, or 55%, to $15.0 million for the year ended December 31, 2003, compared to $33.2 million for the year ended December 31, 2002. The decrease was primarily due to a $8.4 million reduction in revenue from a related party (Cendant) for a custom development project that is now complete and $7.4 million reduction in revenue due to the shutdown and sale of assets of The Hessel Group at the end of 2002. The remaining decrease was attributable to the introduction of a new online version of our Top Producer® product in the second half of 2002 that caused sales to shift from the desktop product with a one-time license fee to the online product with a monthly subscription fee. Software revenue represented approximately 7% of total revenue for the year ended December 31, 2003, compared to 13% of total revenue for the year ended December 31, 2002.

Software expenses decreased $19.3 million, or 49%, to $20.0 million for the year ended December 31, 2003 from $39.2 million for the year ended December 31, 2002. The decrease was primarily due to a $13.9 million reduction due to the shutdown and sale of assets of The Hessel Group. The remaining decrease was in personnel related costs as a result of our restructuring plans described above.

Software generated an operating loss of $5.0 million for the year ended December 31, 2003 compared to an operating loss of $6.0 million for the year ended December 31, 2002. Excluding the effect of the shutdown of The Hessel Group, the remaining operating loss was primarily driven by the reduction in revenue outlined above partially offset by cost reductions implemented by management.

Print

Our Print segment is comprised of our Welcome Wagon® and Homestore Plans and Publications businesses.

Print revenue decreased $9.9 million, or 17%, to $47.4 million for the year ended December 31, 2003, compared to $57.3 million for the year ended December 31, 2002. The decrease was primarily due to a decline in the size of our local merchant sales force at Welcome Wagon®, a reduction in the number of books distributed and a decline in the average revenue per book as advertising spending by local merchants and consumers decreased. Print revenue represented approximately 23% of total revenue both for the year ended December 31, 2003, and the year ended December 31, 2002.

Print expenses decreased $8.1 million, or 14%, to $49.0 million for the year ended December 31, 2003 compared to expenses of $57.1 million for the year ended December 31, 2002. The decrease was directly attributable to significant changes in the cost structure resulting in reduced headcount and production costs.

Print generated operating losses of $1.6 million for the year ended December 31, 2003, compared to operating income of $192,000 for the year ended December 31, 2002 primarily due to the revenue decline discussed above not being fully offset by the cost reduction efforts and production improvements.

Unallocated

Unallocated expenses decreased $28.3 million, or 15%, to $154.7 million for the year ended December 31, 2003 from $183.0 million for the year ended December 31, 2002. The decrease was primarily due to decreases in stock-based charges of $57.5 million as a direct result of the settlement agreement with AOL, decreases in amortization of intangibles of $12.8 million due to the impairment charge taken in the fourth quarter of 2002 as well as certain intangible assets becoming fully amortized during 2003, decreases in restructuring charges of $8.0 million and decreases in other costs of $14.1 million primarily related to the implementation of our restructuring plans described above. These decreases were offset by increased litigation settlement charges of $40.6 and increased impairment of long-lived assets of $23.5 million.

Liquidity and Capital Resources

Net cash provided by continuing operating activities of $9.6 million for the year ended December 31, 2004 was attributable to the net loss from continuing operations of $14.5 million, offset by non-cash expenses including depreciation, amortization of intangible assets, provision for doubtful accounts, stock-based charges and other non-cash items, aggregating to $16.9 million and increased by the gain on sale of fixed assets of $2.2 million. Increasing the cash provided by continuing operating activities were the changes in operating assets and liabilities of approximately $9.4 million. These changes were primarily the result of the accrual of the legal costs associated with former officers and directors and the settlement of the AOL agreement.

Net cash used in continuing operating activities of $41.1 million for the year ended December 31, 2003 was attributable to the net loss from continuing operations of $46.4 million, offset by non-cash expenses including depreciation, amortization of intangible assets, impairment of long-lived assets, provision for doubtful accounts, stock-based charges and other non-cash items, aggregating to $70.2 million and increased by the non-cash gain on settlement of the AOL distribution agreement of $104.1 million. Reducing the cash used in continuing operating activities were the changes in operating assets and liabilities of approximately $39.1 million. These changes were primarily the result of the accrual of the Securities Class Action Lawsuit settlement and the settlement of the AOL agreement. Because of the impact of our restructuring efforts in 2003 and 2002 and the impairment and litigation settlement charges in each year, the cash flow from operations for the year ended December 31, 2003 is not comparable to our current results.

Net cash used in investing activities of $20.4 million for the year ended December 31, 2004 was attributable to purchases of short-term investments of $24.5 million and increased capital expenditures due to the implementation of our new enterprise reporting system and increased capacity for our data center of $3.7 million, partially offset by the sale of assets of $6.7 million primarily due to the sale of our Welcome Wagon® facility and maturities of short-term investments of $1.0 million. The actual cash provided by investing activities was $3.0 million, as the $24.5 million and $1.0 million of investment activity is a classification requirement. Management considers these short-term investments as the equivalent of cash as there is minimal principal risk and none of the instruments have a maturity longer than 30 days. Net cash used in investing activities of $29.2 million for the year ended December 31, 2003 was attributable to purchases of short-term investments of $21.6 million and increased capital expenditures of $8.9 million due to the implementation of our new enterprise reporting system and increased capacity for our data center, partially offset by the sale of marketable securities of $1.3 million. The actual use of cash for investing activities was only $7.6 million, as the $21.6 million was a classification requirement.

Net cash provided by financing activities of $1.8 million for the year ended December 31, 2004 was primarily attributable to $3.9 million due to the exercise of stock options, warrants and share purchases under

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the employee stock purchase plan, partially offset by $2.1 million in capital lease payments. Net cash provided by financing activities of $3.4 million for the year ended December 31, 2003 was primarily attributable to the exercise of stock options, warrants, and share purchases under the Employee Stock Purchase Plan.

We generated positive operating cash flows for the year ended December 31, 2004, but as of December 31, 2004, we had an accumulated deficit of $2.0 billion and cash and short-term investments of $59.9 million. We have stated our intention to invest in our products and our infrastructure, although we have not determined the actual amount of those future expenditures. We have no material financial commitments other than those under capital and operating lease agreements and distribution and marketing agreements. We believe that our existing cash and short-term investments, and any cash generated from operations will be sufficient to fund our working capital requirements, capital expenditures and other obligations through the next 12 months.

Our contractual obligations as of December 31, 2004 are as follows (in thousands):

	Payments Due by Period				
	Total Payments Due	Due in One Year or Less	Due in One to Three Years	Due in Three to Five Years	Over Five Years
Capital lease obligations	$ 2,851	$ 1,834	$ 1,017	$	$
Operating lease obligations	24,736	6,726	12,017	2,045	3,948
Obligations under restructuring charges	8,564	4,420	4,065	79	
Distribution agreements	19,750	14,900	4,850		
Other purchase obligations	7,942	1,942	3,000	3,000	
Total	$ 63,843	$ 29,822	$ 24,949	$ 5,124	$ 3,948

Long-term, we face significant risks associated with the successful execution of our business strategy and may need to raise additional capital in order to fund more rapid expansion, to expand our marketing activities, to develop new, or enhance existing, services or products and to respond to competitive pressures or to acquire complementary services, businesses or technologies. If we are not successful in continuing to generate sufficient cash flow from operations, we may need to raise additional capital through public or private financing, strategic relationships or other arrangements. Our settlement of the Securities Class Action Lawsuit reduced our cash balance by $13.0 million and increased the number of outstanding shares by 20 million, which may make it more difficult to raise additional capital. This additional capital, if needed, might not be available on terms acceptable to us, or at all. If adequate funds are not available or not available on acceptable terms, we may be unable to develop or enhance our products and services, take advantage of future opportunities, or respond to competitive pressures or unanticipated requirements which may have a material adverse effect on our business, financial condition or operating results. If additional capital were raised through the issuance of equity securities, the percentage of our stock owned by our then-current stockholders would be further reduced. Furthermore, these equity securities might have rights, preferences or privileges senior to those of our common and convertible preferred stock. In addition, our liquidity could be adversely impacted by the litigation referred to in Note 21 Settlements of Disputes and Litigation and Note 22 Commitments and Contingencies Legal Proceedings to our Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose Homestore to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to Homestore.

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Recent Accounting Developments

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The Issue s objective is to provide guidance for identifying other-than-temporarily impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP), EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until further notice. The disclosure requirements of EITF 03-1 are effective with this Annual Report for fiscal 2004. Once the FASB reaches a final decision on the measurement and recognition provisions, the Company will evaluate the impact of the adoption of the accounting provisions of EITF 03-1.

In December 2004, the FASB issued revised SFAS No. 123R, Share-Based Payment. SFAS No. 123R sets accounting requirements for share-based compensation to employees and requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation. SFAS No. 123R is effective in interim or annual periods beginning after June 15, 2005. The Company will be required to adopt SFAS No. 123R in its third quarter of fiscal 2005 and currently discloses the effect on net (loss) income and (loss) earnings per share of the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation. The Company is currently evaluating the impact of the adoption of SFAS 123R on its financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We invest our excess cash in money-market funds, auction rate securities, debt instruments of high quality corporate issuers and debt instruments the U.S. Government and its agencies, and, by policy, this limits the amount of credit exposure to any one issuer.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

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Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Homestore, Inc.

We have audited the accompanying consolidated balance sheets of Homestore, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the two years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2) for the two years in the period ended December 31, 2004. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Homestore, Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Homestore, Inc. s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
March 7, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Homestore, Inc.:

In our opinion, the accompanying consolidated statements of operations, of stockholders equity and of cash flows, present fairly, in all material respects, the results of operations and cash flows of Homestore, Inc. and its subsidiaries (the Company) for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP
Los Angeles, California
March 25, 2003, except as to
Notes 13 and 21, as to
which the date is August 12, 2003,
except as to Note 3, as to which
the date is March 10, 2005

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HOMESTORE, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,819	$ 13,942
Short-term investments	45,040	21,575
Accounts receivable, net of allowance for doubtful accounts of $1,399 and $5,377 at December 31, 2004 and 2003, respectively	12,532	14,576
Prepaid distribution expense		10,509
Other current assets	12,498	10,585
Total current assets	84,889	71,187
Property and equipment, net	15,242	21,454
Goodwill, net	19,502	20,477
Intangible assets, net	17,864	25,758
Restricted cash	5,840	
Other assets	7,167	14,672
Total assets	$ 150,504	$ 153,548
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 2,675	$ 1,409
Accrued expenses	39,894	42,576
Accrued litigation settlement		53,600
Accrued distribution obligation		7,406
Obligation under capital leases	1,774	1,535
Deferred revenue	39,487	31,348
Deferred revenue from related parties		4,042
Total current liabilities	83,830	141,916
Obligation under capital leases	991	369
Deferred revenue	4,100	
Deferred revenue from related parties		2,869
Other non-current liabilities	4,190	8,066
	93,111	153,220
Commitments and contingencies (Note 22)		
Convertible preferred stock		
Common stock, $.001 par value; 500,000 shares authorized, 146,868 and 126,905 shares issued at December 31, 2004 and	147	122

December 31, 2003, respectively, and 146,868 and 120,871 shares outstanding at December 31, 2004 and December 31, 2003, respectively				
Additional paid-in capital		2,043,053		1,992,591
Treasury stock, at cost; -0- and 6,034 shares at December 31, 2004 and December 31, 2003, respectively				(14,470)
Deferred stock-based charges		(406)		(258)
Accumulated other comprehensive income		409		267
Accumulated deficit		(1,985,810)		(1,977,924)
Total stockholders equity		57,393		328
Total liabilities and stockholders equity	$	150,504	$	153,548

The accompanying notes are an integral part of these consolidated financial statements.

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HOMESTORE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	2003	2002
	(In thousands, except per share amounts)		
Revenue (including non-cash equity charges, see note 2)	$ 216,860	$ 198,227	$ 219,867
Related party revenue		7,695	31,158
Total revenue	216,860	205,922	251,025
Cost of revenue (including non-cash equity charges, see note 2)	50,829	56,569	73,622
Gross profit	166,031	149,353	177,403
Operating expenses:			
Sales and marketing (including non-cash equity charges, see note 2)	88,388	101,122	161,554
Product and website development (including non-cash equity charges, see note 2)	15,362	17,065	25,497
General and administrative (including non-cash equity charges, see note 2)	68,442	65,333	83,042
Amortization of intangible assets	7,894	21,863	34,699
Restructuring charges (including non-cash equity charges, see note 2)	1,316	4,100	12,057
Impairment of long-lived assets		26,999	3,482
Litigation settlement	2,168	63,600	23,000
Total operating expenses	183,570	300,082	343,331
Loss from operations	(17,539)	(150,729)	(165,928)
Interest income (expense), net	672	(406)	2,673
Gain on settlement of distribution agreement		104,071	
Other income (expense), net	2,366	691	(5,694)
Loss from continuing operations	(14,501)	(46,373)	(168,949)
Gain on disposition of discontinued operations	7,294	2,530	11,790
Loss from discontinued operations	(679)	(3,281)	(6,266)
Net loss	$ (7,886)	$ (47,124)	$ (163,425)
Basic and diluted net income (loss) per share applicable to Common Stockholders:			
Continuing operations	$ (0.11)	$ (0.39)	$ (1.43)
Discontinued operations	$ 0.05	$ (0.01)	$ 0.05
Net loss	$ (0.06)	$ (0.40)	$ (1.39)

Shares used to calculate basic and diluted net loss per share applicable to common stockholders	136,518	118,996	117,900

The accompanying notes are an integral part of these consolidated financial statements.

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HOMESTORE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Convertible Preferred Stock		Common Stock		Additional		Notes		Accumulated		Total
							Receivable	Deferred	Other		
					Paid-in	Treasury	from	Stock-based	Comprehensive	Accumulated	Stockholders
	Shares	Amount	Shares	Amount	Capital	Stock	Stockholders	Charges	Income (loss)	Deficit	Equity
					(In thousands)						
Balance at December 31, 2001		$	117,509	$ 117	$ 1,987,405	$ (18,062)	$ (3,569)	$ (11,692)	$ (3,568)	$ (1,767,375)	$ 183,256
Comprehensive income (loss):											
Net loss										(163,425)	(163,425)
Realized loss on marketable securities									3,292		3,292
Foreign currency translation									(148)		(148)
Comprehensive loss									3,144		(160,281)
Issuance of common stock under employee stock purchase plan and exercise of stock options			707	1	895			(90)			806
Settlement of stock issuance obligation					(521)						(521)
Issuance of common stock			117		141	(57)					84
Repayment from stockholders							3,463				3,463
Repurchase of common stock			(127)			(169)					(169)
Reversal of stock- based charges related to dispositions					(2,124)			1,502			(622)
					4,959			8,034			12,993

Stock-based charges									
Shares returned from escrow relating to discontinued operations	(367)			(279)					(279)
Balance at December 31, 2002	$ 117,839	$ 118	$ 1,990,755	$ (18,567)	$ (106)	$ (2,246)	$ (424)	$ (1,930,800)	$ 38,730
Comprehensive income (loss):									
Net loss								(47,124)	(47,124)
Realized loss on marketable securities							180		180
Foreign currency translation							511		511
Comprehensive loss							691	(47,124)	(46,433)
Issuance of common stock under employee stock purchase plan and exercise of stock options	2,838	3	3,299						3,302
Settlement of stock issuance obligation	168								
Issuance of restricted stock	436	1	343			(344)			
Repayment from stockholders					68				68
Repurchase and retirement of treasury stock	(12)		(4,416)	4,386		30			
Repurchase of common stock	(31)			(38)	38				
Stock-based charges			2,610			2,302			4,912
Shares returned from escrow relating to discontinued operations	(367)			(251)					(251)
	$ 120,871	$ 122	$ 1,992,591	$ (14,470)	$	$ (258)	$ 267	$ (1,977,924)	$ 328

Balance at December 31, 2003									
Comprehensive income (loss):									
Net loss								(7,886)	(7,886)
Realized loss on marketable securities							2		2
Foreign currency translation							140		140
Comprehensive loss							142	(7,886)	(7,744)
Issuance of common stock under employee stock purchase plan and exercise of stock options	3,146	4	3,862						3,866
Issuance of restricted stock	148		667			(367)			300
Retirement of treasury stock		(1)	(14,469)	14,470					
Stock-based charges						219			219
Shares issued in settlement of litigation	22,703	22	60,402						60,424
Balance at December 31, 2004	$ 146,868	$ 147	$ 2,043,053	$	$	$ (406)	$ 409	$ (1,985,810)	$ 57,393

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HOMESTORE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

				Year Ended December 31,								
				2004		2003		2002				
						(In thousands)						
Cash flows from continuing operating activities:												
Loss from continuing operations				$ (14,501)		$ (46,373)		$ (168,949)				
Cash reserve deposits held-for-securitization trusts		**41**		**(6) (e)**		**(1)**		**(4)**		**30**		**(112) (e)**
Interests retained in securitization trusts		**688**		**(85) (e)**				**(93)**		**510**		**(e)**
Fair value of derivative contracts in (liability) receivable position, net		**149**		**324 (f)**		**(5)**		**(217)**	**68**	**319**		**588 (f)**
Total assets	**$**	**7,251**	**$**	**75**	**$**	**(7)**	**$**	**(827)**	**$ 68**	**$ 6,560**	**$**	**(96)**
Liabilities												
Secured debt												
On-balance sheet securitization debt (a)	**$**	**(1,899)**	**$**	**(136) (g)**	**$**		**$**	**359**	**$**	**$ (1,676)**	**$**	**(35) (g)**
Total liabilities	**$**	**(1,899)**	**$**	**(136)**	**$**		**$**	**359**	**$**	**$ (1,676)**	**$**	**(35)**

(a) Carried at fair value due to fair value option election under SFAS 159.
(b) Fair value adjustment reported as other loss on investments, net, and the related interest is reported as interest and dividends on investment securities in the Condensed Consolidated Statement of Income.
(c) The fair value adjustment is reported as other income, net of losses, and the related interest is reported as consumer financing revenue in the Condensed Consolidated Statement of Income.
(d) Fair value adjustment reported as servicing asset valuation and hedge activities, net, in the Condensed Consolidated Statement of Income.
(e) Reported as other loss on investments, net, in the Condensed Consolidated Statement of Income.
(f) Derivative instruments relating to risks associated with debt are reported as other interest expense in the Condensed Consolidated Statement of Income, while derivatives relating to risks associated with mortgage loans held-for-sale are reported as other loss on investments, net. The remaining derivative earnings are reported as other income, net of losses, in the Condensed Consolidated Statement of Income.
(g) Fair value adjustment is reported as other income, net of losses, and the related interest is reported within total interest expense in the Condensed Consolidated Statement of Income.
(h) Includes foreign currency translation adjustments, if any.

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GMAC LLC

NOTES TO CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	Level 3 recurring fair value measurements					
		Net realized/ unrealized gains (losses)				
($ in millions)	Fair value as of January 1, 2008	Included in earnings	Included in other comprehensive income (j)	Purchases, sales, issuances, and settlements	Fair value as of March 31, 2008	Net unrealized gains (losses) included in earnings still held as of March 31, 2008
Assets						
Investment securities						
Available-for-sale securities	$ 1,249	$ (33) (b)	$ 7	$ (28)	$ 1,195	$ (25) (b)
Trading securities	2,726	(424) (b)	(2)	(152)	2,148	(521) (b)
Consumer finance receivables and loans, net of unearned income (a)	6,684	(2,003) (c)		(766)	3,915	(2,274) (c)
Mortgage servicing rights	4,713	(646) (d)		211	4,278	(630) (d)
Other assets						
Cash reserve deposits held for securitization trusts	30	8 (e)		3	41	8 (e)
Fair value of derivative contracts in receivable position, net	(46)	179 (f)	11	28	172	197 (f)
Restricted cash collections for securitization trusts	111	(3) (g)	(3)	(5)	100	(3) (g)
Total assets	$ 15,467	$ (2,922)	$ 13	$ (709)	$ 11,849	$ (3,248)
Liabilities						
Secured debt						
On-balance sheet securitization debt (a)	$ (6,734)	$ 2,033 (h)	$	$ 705	$ (3,996)	$ 2,149 (h)
Collateralized debt obligations (a)	(351)	21 (i)		27	(303)	(59) (i)
Total liabilities	$ (7,085)	$ 2,054	$	$ 732	$ (4,299)	$ 2,090

(a) Carried at fair value due to fair value option election under SFAS 159.
(b) Fair value adjustment reported as other loss on investments, net, and the related interest is reported as interest and dividends on investment securities in the Condensed Consolidated Statement of Income.
(c) Fair value adjustment is reported as other income, net of losses, and the related interest is reported as consumer financing revenue in the Condensed Consolidated Statement of Income.
(d) Fair value adjustment reported as servicing asset valuation and hedge activities, net, in the Condensed Consolidated Statement of Income.
(e) Reported as other loss on investments, net, in the Condensed Consolidated Statement of Income.
(f) Derivative instruments relating to risks associated with debt are reported as other interest expense in the Condensed Consolidated Statement of Income, while derivatives relating to risks associated with mortgage loans held-for-sale are reported as other loss on investments, net. The remaining derivative earnings are reported as other income, net of losses, in the Condensed Consolidated Statement of Income.
(g) Reported as other operating expenses in the Condensed Consolidated Statement of Income.
(h) Fair value adjustment is reported as other income, net of losses, and the related interest is reported as interest expense in the Condensed Consolidated Statement of Income.
(i)

Reported as other income (loss) on investments, net, and the related interest is reported within total interest expense in the Condensed Consolidated Statement of Income.

(j) Includes foreign currency translation adjustments, if any.

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GMAC LLC

NOTES TO CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Nonrecurring Fair Value

We may be required to measure certain assets and liabilities at fair value from time to time. These periodic fair value measures typically result from the application of lower of cost or fair value accounting or certain impairment measures under GAAP. These items would constitute nonrecurring fair value measures under SFAS 157.

The following tables display the assets and liabilities measured at fair value on a nonrecurring basis.

	Nonrecurring fair value measures				Lower of cost or fair value or credit allowance	Total gains (losses) included in earnings for the three months ended
March 31, 2009 *($ in millions)*	**Level 1**	**Level 2**	**Level 3**	**Total**		
Assets						
Loans held-for-sale (a)	**$**	**$**	**$ 814**	**$ 814**	**$ (471)**	**(f)**
Commercial finance receivables and loans, net of unearned income (b)		**329**	**1,994**	**2,323**	**(588)**	**(87) (g)**
Other assets						
Real estate and other investments (c)		**43**		**43**	**(e)**	**1**
Repossessed and foreclosed assets, net (d)		**174**	**310**	**484**	**(245)**	**(f)**
Investment in used vehicles held-for-sale (a)			**500**	**500**	**(109)**	**(f)**
Total assets	**$**	**$ 546**	**$ 3,618**	**$ 4,164**	**$ (1,413)**	**$ (86)**

n/m = not meaningful

(a) Represents assets held-for-sale that are required to be measured at lower of cost or fair value in accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities* or SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*. The table above includes only assets with fair values below cost as of March 31, 2009. The related valuation allowance represents the cumulative adjustment to fair value of those specific loans.

(b) Represents the portion of the commercial portfolio impaired as of March 31, 2009, under SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. The related credit allowance represents the cumulative adjustment to fair value of those specific receivables.

(c) Represents assets impaired as of March 31, 2009, under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The total loss included in earnings represents adjustments to the fair value of the portfolio based on actual sales during the three months ended March 31, 2009.

(d) The allowance provided for repossessed and foreclosed assets represents any cumulative valuation adjustment recognized to adjust the assets to fair value less costs to sell.

(e) The total loss included in earnings is the most relevant indicator of the impact on earnings.

(f) We consider the applicable valuation or loan loss allowance to be the most relevant indicator of the impact on earnings caused by the fair value measurement. Accordingly, the table above excludes total gains and losses included in earnings for these items. The carrying values are inclusive of the respective valuation or credit loss allowance.

(g) Represents losses recognized on the impairment of our resort finance business, which provided debt capital to resort and timeshare developers. Refer to footnote (f) for information related to the other commercial finance receivables and loans, net of unearned income, for which impairment was recognized.

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March 31, 2008 *($ in millions)*	Nonrecurring fair value measures Level 1	Level 2	Level 3	Total	Lower of cost or fair value or credit allowance	Total gains (losses) included in earnings for the three months ended
Assets						
Loans held-for-sale (a)	$	$ 7,784	$ 1,201	$ 8,985	$ (1,368)	n/m (g)
Consumer finance receivables and loans, net of unearned income (b)		238	31	269	(241)	n/m (g)
Commercial finance receivables and loans, net of unearned income (c)			37	37	(18)	n/m (g)
Other assets						
Real estate and other investments (d)		280		280	n/m (f)	$ (3)
Repossessed and foreclosed assets, net (e)		388	734	1,122	(248)	n/m (g)
Total assets	$	$ 8,690	$ 2,003	$ 10,693	$ (1,875)	$ (3)

n/m = not meaningful

(a) Represents loans held-for-sale that are required to be measured at lower of cost or fair value in accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities* or (SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*. Only loans with fair values below cost are included in the table above. The related valuation allowance represents the cumulative adjustment to fair value of those specific loans.

(b) Includes only receivables with a specific reserve established using the fair value of the underlying collateral. The related credit allowance represents the cumulative adjustment to fair value of those specific receivables.

(c) Represents the portion of the commercial portfolio impaired as of March 31, 2008, under SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. The related credit allowance represents the cumulative adjustment to fair value of those specific receivables.

(d) Represents assets impaired under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Asset*. The total loss included in earnings for the three months ended March 31, 2008, represents the fair market value adjustments on the portfolio.

(e) The allowance provided for repossessed and foreclosed assets represents any cumulative valuation adjustment recognized to adjust the assets to fair value less costs to sell.

(f) The total loss included in earnings is the most relevant indicator of the impact on earnings.

(g) We consider the applicable valuation or credit loss allowance to be the most relevant indicator of the impact on earnings caused by the fair value measurement. The carrying values are inclusive of the respective valuation or credit loss allowance.

Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159)

Our Mortgage operations elected to measure at fair value certain mortgage loans held-for-investment. Our intent in electing fair value for these items was to mitigate a divergence between accounting losses and economic exposure for certain assets and liabilities.

The following is a description of the financial liabilities elected to be measured at fair value under SFAS 159.

On-balance sheet securitizations In prior years, our Mortgage operations executed certain domestic securitizations that did not meet sale criteria under SFAS 140. As part of these domestic on-balance sheet securitizations, we typically retained the economic residual interest in the securitization. The economic residual entitles us to excess cash flows that remain at each distribution date after absorbing any credit losses in the securitization. Because sale treatment was not achieved under SFAS 140, the mortgage loan collateral remained on the balance sheet and was classified as consumer finance receivable and loans; the securitization s debt was classified as secured debt; and the economic residuals were not carried on the balance sheet. After execution of the securitizations, we were required under GAAP to continue recording an allowance for loan losses on these held-for-investment loans.

As a result of market conditions and deteriorating credit performance of domestic residential mortgages, our economic exposure on certain of these domestic on-balance sheet securitizations was reduced to zero or approximating zero, thus indicating we expected minimal to no future cash flows to be received on the economic residual. While we no longer were economically exposed to credit losses in the securitizations, we were required to continue recording additional allowance for loan losses on the securitization collateral as credit performance deteriorated. Further, in accordance with GAAP, we did not record any offsetting reduction in the securitization s

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debt balances, even though any nonperformance of the assets would ultimately pass through as a reduction of the amount owed to the debt holders once they are contractually extinguished. As a result, we were required to record accounting losses beyond our economic exposure.

To mitigate the divergence between accounting losses and economic exposure, we elected the fair value option for a portion of the domestic on-balance sheet securitizations. In particular, we elected the fair value option for domestic on-balance sheet securitization vehicles in which we estimated that the credit reserves pertaining to securitized assets could, or already had, exceeded our economic exposure. The fair value option election was made at a securitization level; thus the election was made for both the mortgage loans held-for-investment and the related portion of on-balance sheet securitized debt for these particular securitizations.

We carry the fair value-elected loans within consumer finance receivable and loans, net of unearned income, on the Condensed Consolidated Balance Sheets. Our policy is to separately record interest income on the fair value-elected loans unless the loans are placed on nonaccrual status when they are 60 days past due; these amounts continue be classified within consumer financing revenue in the Condensed Consolidated Statement of Income. The fair value adjustment recorded for the loans is classified as other income, net of losses, in the Condensed Consolidated Statement of Income.

The fair value-elected debt balances continue to be recorded as secured debt on the Condensed Consolidated Balance Sheets. Our policy is to separately record interest expense on the fair value-elected securitization debt, which continues to be classified within interest expense in the Condensed Consolidated Statement of Income. The fair value adjustment recorded for this fair value-elected debt is classified within other income, net of losses, in the Consolidated Statement of Income.

The following tables summarize the fair value option elections and information regarding the amounts recorded within earnings for each fair value option-elected item.

	Changes included in the Condensed Consolidated Statement of Income for the three months ended March 31, 2009				
($ in millions)	**Consumer financing revenue**	**Total interest expense**	**Other income, net of losses**	**Total included in earnings**	**Change in fair value due to credit risk (a)**
Assets					
Consumer finance receivables and loans, net of unearned income	$ 142	$	$ 46	$ 188	$ (64) (b)
Liabilities					
Secured debt					
On-balance sheet securitization debt	$	$ (60)	$ (76)	$ (136)	$ 62 (c)
Total				$ 52	

(a) Factors other than credit quality that impact fair value include changes in market interest rates and the illiquidity or marketability in the current marketplace. Lower levels of observable data points in illiquid markets generally result in wide bid/offer spreads.
(b) The credit impact for consumer finance receivables and loans were quantified by applying internal credit loss assumptions to cash flow models.
(c) The credit impact for on-balance sheet securitization debt is assumed to be zero until our economic interests in a particular securitization is reduced to zero, at which point the losses on the underlying collateral will be expected to be passed through to third-party bondholders. Losses allocated to third-party

bondholders, including changes in the amount of losses allocated, will result in fair value changes due to credit. We also monitor credit ratings and will make credit adjustments to the extent any bond classes are downgraded by rating agencies.

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	Changes included in the Condensed Consolidated Income Statement for the three months ended March 31, 2008					
($ in millions)	Consumer financing revenue	Total interest expense	Investment income	Other income, net of losses	Total included in earnings	Change in fair value due to credit
Assets						
Consumer finance receivables and loans, net of unearned income	$ 198	$	$	$ (2,201)	$ (2,003)	$ (18) (a)
Liabilities						
Secured debt						
On-balance sheet securitization debt	$	$ (114)	$	$ 2,147	$ 2,033	$ (22) (b)
Collateralized debt obligations			21		21	(c)
Total					$ 51	

(a) The credit impact for consumer finance receivables and loans were quantified by applying internal credit loss assumptions to cash flow models.
(b) The credit impact for on-balance sheet securitization debt is assumed to be zero until our economic interests in a particular securitization is reduced to zero, at which point the losses on the underlying collateral will be expected to be passed through to third-party bondholders. Losses allocated to third-party bondholders, including changes in the amount of losses allocated, will result in fair value changes due to credit. We also monitor credit ratings and will make credit adjustments to the extent any bond classes are downgraded by rating agencies.
(c) The credit impact for collateralized debt obligations is assumed to be zero until our economic interests in the securitization is reduced to zero, at which point the losses projected on the underlying collateral will be expected to be passed through to third-party bondholders. Losses allocated to third-party bondholders, including changes in the amount of losses allocated, will result in fair value changes due to credit. We also monitor credit ratings and will make credit adjustments to the extent any bond classes are downgraded by rating agencies.

Interest income on mortgage loans held-for-investment is measured by multiplying the unpaid principal balance on the loans by the coupon rate and the day s interest due. Interest expense on the on-balance sheet securitizations is measured by multiplying bond principal by the coupon rate and day s interest due to the investor.

The following table provides the aggregate fair value and the aggregate unpaid principal balance for the fair value option-elected loans and long-term debt instruments.

March 31, 2009 *($ in millions)*	**Unpaid principal balance**	**Loan advances/ other**	**Accrued interest**	**Fair value allowance**	**Fair value**
Assets					
Consumer finance receivables and loans, net of unearned income					
Total loans	**$ 8,346**	**$ (136)**	**$ 82**	**$ (6,629)**	**$ 1,663**
Nonaccrual loans	**1,744**	**(b)**	**(b)**	**(b)**	**(b)**
Loans 90+ days past due (a)	**1,302**	**(b)**	**(b)**	**(b)**	**(b)**
Liabilities					
Secured debt					

On-balance sheet securitization debt	**$ (8,118)**	**$**	**$ (17)**	**$ 6,459**	**$ (1,676)**

(a) Loans 90+ days past due are also presented within the nonaccrual loan balance and the total loan balance.
(b) The fair value of loans held-for-sale is calculated on a pooled basis, which does not allow us to reliably estimate the fair value of loans 90+ days past due or nonaccrual loans. As a result, the fair value of these loans is not included in the table above. Unpaid principal balances were provided to allow assessment of the materiality of loans 90+ days past due and nonaccrual loans relative to total loans. For further discussion regarding the pooled basis, refer to the previous section of this note titled, Consumer finance receivables, net of unearned income.

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16. Variable Interest Entities

The following describes the VIEs that we have consolidated or in which we have a significant variable interest as described in FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46(R)).

Off-balance sheet securitization trusts We sell pools of residential loans through securitization transactions that qualify for off-balance sheet treatment. Under SFAS 140, these entities are set up as trusts and are considered QSPEs. We do not consolidate these QSPEs as they are specifically out of scope of FIN 46(R) and are not allowed to be consolidated under SFAS 140.

Additionally, in certain securitization transactions, we transfer consumer finance receivables and wholesale lines of credit into bank-sponsored, multiseller, commercial paper conduits. These conduits provide a funding source to us (and to other transferors into the conduit) as they fund the purchase of the receivables through the issuance of commercial paper. Total assets outstanding in these bank-sponsored conduits approximated $4.3 billion as of March 31, 2009. Although we have variable interests in these conduits, we are not considered to be the primary beneficiary, as we do not retain the majority of the expected losses or returns. We do not consolidate these conduits as they are specifically out of scope of FIN 46(R) and are not allowed to be consolidated under SFAS 140. Our maximum exposure to loss because of our involvement with these nonconsolidated VIEs is $126 million and would only be incurred in the event of a complete loss on the assets that we transferred.

On-balance sheet securitization trusts We have certain securitization transactions that are not QSPEs and are VIEs within the scope of FIN 46(R). We typically hold the first loss position in these securitization transactions and, as a result, anticipate absorbing the majority of the expected losses of the VIE. Accordingly, we are the primary beneficiary; thus, we have consolidated these securitization trusts entities. The assets of the consolidated securitization trusts totaled $46.1 billion and $49.9 billion at March 31, 2009, and December 31, 2008, respectively. The majority of the assets are included as finance receivables and loans, net of unearned interest, in the Condensed Consolidated Balance Sheet. The liabilities of these securitization trust entities totaled $35.9 billion and $39.0 billion at March 31, 2009, and December 31, 2008, respectively. The majority of these liabilities were included as secured debt in the Condensed Consolidated Balance Sheet.

The nature of, purpose of, activities of, and our continuing involvement with the consolidated securitization trusts are virtually identical to those of our off-balance sheet securitization trusts, which are discussed in Note 6. We have not provided financial or other support to the consolidated securitization trusts that was not previously contractually required to be provided. The assets of the securitization trusts generally are the sole source of repayment on the securitization trusts liabilities. The creditors of the securitization trusts do not have recourse to our general credit, with the exception of the customary representation and warranty repurchase provisions and, in certain transactions, early payment default provisions, as discussed in Note 26 to the Consolidated Financial Statements in our 2008 Annual Report on Form 10-K.

During 2009, we executed an amendment to a wholesale automotive securitization transaction that was classified as a QSPE under SFAS 140 and, therefore, was unconsolidated. The amendment contractually required us to deposit additional cash into a collateral account held by the trust. Management determined the amendment caused the trust to no longer be classified as a QSPE. As a result, the trust became a consolidated entity in accordance with FIN 46(R).

Mortgage warehouse funding Our Mortgage operations transfer international residential mortgage loans into SPEs in order to obtain funding. The facilities have advance rates less than 100% of the pledged asset values, and, in certain cases, we have provided a subordinated loan to the facility to serve as additional collateral. For certain facilities, there is an unconditional guarantee by our Mortgage operations of the entity s repayment on the related debt to the facility that provides the facility provider with recourse to our general credit. Our Mortgage operations continue to service the assets within the mortgage warehouse facilities.

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The over-collateralization and the subordinated loan support the liability balance and are the primary source of repayment of the entities liabilities. Assets can be sold from the facilities so long as we support the minimum cash reserve under the borrowing base should the eligibility/concentration limit of the remaining assets require it. We are entitled to excess cash flows generated from the assets beyond those necessary to pay the facility during a particular period; therefore, we hold an economic residual. There are no other forms of support that we provide to the SPE beyond the assets (over-collateralization and subordinated loan) initially provided and the guarantee provided by our Mortgage operations of the entities performance.

These entities are VIEs within the scope of FIN 46(R). Due to the subordinated loan and the guarantee, our Mortgage operations anticipate absorbing the majority of the expected losses of the VIE. Accordingly, our Mortgage operations are the primary beneficiary and thus have consolidated these entities.

The assets of these residential mortgage warehouse entities totaled $881 million, and liabilities totaled $1.0 billion at March 31, 2009. At December 31, 2008, the assets of these residential mortgage warehouse entities totaled $1.4 billion, and liabilities totaled $1.5 billion. The majority of the assets and liabilities are included in loans held-for-sale or finance receivables and loans, net of unearned income and secured debt, respectively, in the Condensed Consolidated Balance Sheet. The creditors of these VIEs do not have legal recourse to our general credit.

Construction and real estate lending Our Mortgage operations use SPEs to finance construction-lending receivables and other real estate-owned assets. The SPEs purchase and hold the assets through financing obtained from third-party asset-backed commercial paper conduits. All forward commitments to fund receivable obligations previously eligible for financing under this facility were funded by an alternative source creating additional over-collateralization.

Our Mortgage operations are the primary beneficiary since they absorb the majority of the losses and, as such, consolidate the entities in accordance with FIN 46(R). The assets in these entities totaled $999 million and $1.2 billion at March 31, 2009, and December 31, 2008, respectively, which were included in finance receivables and loans, net of unearned income, in the Condensed Consolidated Balance Sheet. The liabilities in these entities totaled $416 million and $557 millions at March 31, 2009, and December 31, 2008, respectively. The beneficial interest holders of these VIEs do not have legal recourse to our general credit. We do not have a contractual obligation to provide any type of financial support in the future, nor have we provided noncontractual financial support or any type of support to the entity during the three months ended March 31, 2009. All forward commitments to fund receivable obligations previously eligible for financing under this facility were funded by an alternative source creating additional over-collateralization.

We invest in certain entities and as such enter into subordinated real estate-lending arrangements. These entities are created to develop land and construct properties. Management has determined we do not have the majority of the expected losses or returns, and, as such, consolidation is not appropriate under FIN 46(R). Total assets in these entities were $65 million at March 31, 2009, of which $41 million represents our maximum exposure. Total assets in these entities were $65 million at December 31, 2008, of which $43 million represents our maximum exposure. We do not have a contractual obligation to provide any type of financial support in the future, nor have we provided noncontractual financial support or any type of support to the entity during the three months ended March 31, 2009.

Model home financings In June 2008, Cerberus purchased certain assets of our Mortgage operations with a carrying value of approximately $480 million for consideration consisting of $230 million in cash and Series B junior preferred membership interests in the newly formed entity, CMH, which is not a subsidiary of our Mortgage operations and the managing member of which is an affiliate of Cerberus. CMH purchased model home and lot option assets from our Mortgage operations.

In conjunction with this agreement, Cerberus has entered into a term loan and a revolving loan with CMH. The term loan principal amount is $230 million, and the revolving loan maximum amount is $10 million. Both loans

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have a five-year term and a 15% interest rate. The term loan and related interest are paid from the dispositions of the model homes and lot options.

The term loan and interest due is repaid out of the dispositions of the models after CMH has repaid the loan and paid the accrued interest. Cash is distributed in the following order: (1) to the Class A senior preferred member all unreturned preferred capital, including a preferred return equal to 20% of total cash outlay less the aggregate amount of interest payments made; (2) to the Class B junior preferred member all unreturned preferred capital, including a preferred return equal to 20% of the initial Class B capital account; (3) to the Class B member until all reimbursable costs have been returned; and (4) to the common unit member (Cerberus). Based on the market conditions and market valuation adjustments, there is a risk that ResCap will not receive all of its Tier 2 payments.

As of March 31, 2009, Cerberus was repaid in full under the term loan and was paid their preferred return on Class A Senior Preferred Capital.

We consolidate CMH in accordance with FIN 46(R) as we hold all the remaining interests in CMH and are, therefore, the primary beneficiary. The assets of CMH were $131 million and $186 million as of March 31, 2009, and December 31, 2008, respectively, and were included in other assets in Condensed Consolidated Balance Sheet. The liabilities of CMH were $2 million and $47 million as of March 31, 2009, and December 31, 2008, respectively, which were classified as debt and accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet. The beneficial interest holders of this VIE do not have legal recourse to our general credit. We do not have a contractual obligation to provide any type of financial support in the future, nor have we provided noncontractual financial support or any type of support to the entity during the three months ended March 31, 2009.

We continue to service, account for, market, and sell the assets without a servicing fee. However we do receive reimbursement of expenses directly related to the assets such as property taxes and other direct out-of-pocket expenses. This VIE does not conduct new business; therefore, no new assets have transferred into CMH.

Servicing funding In order to assist in the financing of our servicing advance receivables, our Mortgage operations formed an SPE that issues term notes to third-party investors that are collateralized by servicing advance receivables. These servicing advance receivables are transferred to the SPE and consist of delinquent principal and interest advances made by our Mortgage operations, as servicer, to various investors; property taxes and insurance premiums advanced to taxing authorities and insurance companies on behalf of borrowers; and amounts advanced for mortgages in foreclosure. The SPE funds the purchase of the receivables from financing obtained from the third-party investors and subordinated loans or an equity contribution from our Mortgage operations. Management has determined that we are the primary beneficiary of the SPE and, as such, consolidate the entity in accordance with FIN 46(R). The assets of this entity totaled $1.1 billion and $1.2 billion as of March 31, 2009, and December 31, 2008, respectively, which are included in other assets on the Condensed Consolidated Balance Sheet. The liabilities of this entity totaled $1.2 billion at March 31, 2009, consisting of $700 million in third-party term notes which are included within debt on the Condensed Consolidated Balance Sheet, and $482 million in affiliate payables to ResCap, which are eliminated in consolidation. The liabilities of this entity totaled $1.2 billion at December 31, 2008, consisting of $700 million in third-party term notes that are included within debt on the Condensed Consolidated Balance Sheet and $507 million in affiliate payables to ResCap that are eliminated in consolidation. Our maximum exposure related to this entity is $435 million as of March 31, 2009. The beneficial interest holder of this VIE does not have legal recourse to our general credit. We do not have a contractual obligation to provide any type of financial support in the future, nor have we provided noncontractual financial support to the entity during the three months ended March 31, 2009.

Commercial Finance receivables We have a facility in which we transfer commercial-lending receivables to a 100% owned SPE, which, in turn, issues notes received to third-party financial institutions, GMAC Commercial Finance, and asset-backed commercial paper conduits. The SPE funds the purchase of receivables from us with cash obtained from the sale of notes. Management has determined that we are the primary beneficiary of the SPE and, as such, consolidates the entity in accordance with FIN 46(R). The assets and liabilities of the SPE totaled $1.8 billion

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and $932 million, respectively, as of March 31, 2009, and are included in finance receivables and loans, net of unearned income, on our Condensed Consolidated Balance Sheet. The assets and liabilities of the SPE totaled $2.2 billion and $1.1 billion, respectively, as of December 31, 2008. The beneficial interest holders of this variable interest entity do not have legal recourse to our general credit.

In other securitization transactions, we transfer resort time-share and commercial trade receivables into bank-sponsored multiseller commercial paper conduits. These conduits provide a funding source to us (and to other transferors into the conduit) as they fund the purchase of the receivables through the issuance of commercial paper. Total assets and liabilities outstanding in these bank-sponsored conduits approximated $1.8 billion and $669 million, respectively, as of March 31, 2009. Total assets and liabilities outstanding in these bank-sponsored conduits approximated $2.1 billion and $781 million, respectively, as of December 31, 2008. Although we have a variable interest in these conduits, we may at our discretion prepay all or any portion of the loans at any time.

Preferred Blocker Inc. In connection with the fourth quarter 2008 private debt exchange, we transferred GMAC Preferred Membership Interests to Preferred Blocker Inc. (Blocker), a newly formed taxable C-corporation. Blocker was established for the sole purpose of investing in a series of GMAC Preferred Membership Interests and financing them through the issuance of Blocker Preferred Stock to third-party investors in connection with the private debt exchange. Blocker will generally not engage in any business activities or hold any assets or incur any liabilities other than in connection with the issuance and maintenance of preferred stock. In connection to the arrangement, we hold 5,000,000 shares of Blocker Common Stock with a par value of $0.01. Additionally, we are bound by a Keep-Well Agreement with Blocker in which we are required to make payment to Blocker in the event that Blocker s expenses, primarily its income tax expense, are greater than the dividend spread between the GMAC Preferred Membership Interests (11.86% dividend rate per annum) and the Blocker Preferred Stock (7% dividend rate per annum). Refer to Note 26 to the Consolidated Financial Statements in our 2008 Annual Report on Form 10-K for additional information regarding the Keep-Well Agreement. Due to the spread in rates, Blocker s tax rate would have to exceed 41.0% before we would be required to make payment under the Keep-Well Agreement. Since this rate is in excess of common corporate taxable rates, the potential for loss under this agreement is considered remote, unless corporate tax rates are increased. Although we hold these variable interests in Blocker, we are not considered to be the primary beneficiary as we do not retain the majority of the expected losses or returns. Blocker is a wholly owned nonconsolidated subsidiary of GMAC.

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17. Segment Information

Financial results for our reportable segments are summarized below.

Three months ended March 31, ($ in millions)	Global Automotive Finance operations (a) North American operations (a)	International operations (b)	Mortgage operations (c)	Insurance operations	Corporate and Other (d)	Consolidated
2009						
Net financing revenue (loss)	**$ 498**	**$ 213**	**$ 59**	**$ 65**	**$ (357)**	**$ 478**
Other revenue (loss)	**270**	**87**	**962**	**850**	**(448)**	**1,721**
Total net revenue (loss)	**768**	**300**	**1,021**	**915**	**(805)**	**2,199**
Provision for loan losses	**134**	**55**	**650**		**4**	**843**
Other noninterest expense	**388**	**286**	**614**	**856**	**10**	**2,154**
Income (loss) before income tax (benefit) expense	**246**	**(41)**	**(243)**	**59**	**(819)**	**(798)**
Income tax (benefit) expense	**(13)**	**(7)**	**(118)**	**9**	**6**	**(123)**
Net income (loss)	**$ 259**	**$ (34)**	**$ (125)**	**$ 50**	**$ (825)**	**$ (675)**
Total assets	**$ 105,766**	**$ 25,702**	**$ 49,602**	**$ 12,156**	**$ (13,674)**	**$ 179,552**
2008						
Net financing revenue (loss)	$ 428	$ 316	$ 30	$ 93	$ (39)	$ 828
Other revenue (loss)	328	162	(51)	1,154	(11)	1,582
Total net revenue (loss)	756	478	(21)	1,247	(50)	2,410
Provision for loan losses	117	55	300		2	474
Other noninterest expense	481	285	584	1,081	76	2,507
Income (loss) before income tax expense (benefit)	158	138	(905)	166	(128)	(571)
Income tax expense (benefit)	4	34	(46)	34	(8)	18
Net income (loss)	$ 154	$ 104	$ (859)	$ 132	$ (120)	$ (589)
Total assets	$ 130,893	$ 37,795	$ 73,869	$ 13,730	$ (12,933)	$ 243,354

(a) North American operations consist of automotive financing in the United States, Canada, and Puerto Rico. International operations consist of automotive financing and full-service leasing in all other countries.

(b) Amounts include intrasegment eliminations between North American operations and International operations.
(c) Represents the ResCap LLC legal entity and the mortgage activities of GMAC Bank and ResMor Trust.
(d) Represents our Commercial Finance business, certain equity investments, other corporate activities, and reclassifications and eliminations between the reportable operating segments.

18. Subsequent Events

Amendment to GMAC LLC Operating Agreement

On April 15, 2009, GM Finance Co. Holdings LLC and FIM Holdings, each as members of GMAC, entered into a Fourth Amended and Restated Limited Liability Company Operating Agreement of GMAC (the Fourth Amended and Restated LLC Agreement). The Fourth Amended and Restated LLC Agreement contains amendments to, among other things, (i) simplify GMAC s common equity structure by combining the Class A and Class B membership interests into a single class of common membership interests, (ii) set forth certain circumstances following the occurrence of which GMAC would be required to convert into a Delaware corporation, (iii) amend certain reporting, consulting and auditing obligations of GMAC with respect to GMAC s members, (iv) amend GMAC s obligations to pay tax and other distributions to certain of its members and (v) amend member approval rights with respect to certain corporate and other actions.

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CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Declaration of Quarterly Dividend Payments

On April 16, 2009, our Board of Managers declared quarterly dividend payments on each of our Fixed Rate Cumulative Perpetual Preferred Membership Interests, Series D-1 and Series D-2, and Class E Preferred Membership Interests. Dividend payments declared on the senior preferred membership interests issued to the U.S. Department of the Treasury under the Troubled Asset Relief Program totaled approximately $105.6 million. This consisted of a cash dividend of $20 per unit, or a total of $100 million, on the Series D-1 preferred interests; and a cash dividend of $22.50 per unit, or a total of $5.6 million, on the Series D-2 preferred interests. The dividend payment declared to Preferred Blocker Inc. (Preferred Blocker), a wholly owned subsidiary of GMAC, on the Class E Preferred Membership Interests was $28.99 per unit, or a total of $75 million. Preferred Blocker was established in connection with the settlement of our private exchange and cash tender offers, which were completed in December 2008.

Separately, the Board of Directors of Preferred Blocker declared a quarterly dividend payment of $17.11 per share, or a total of approximately $44 million, on Preferred Blocker s 9% Cumulative Perpetual Preferred Stock (Blocker Preferred). This dividend is payable on May 15, 2009, to shareholders of record as of May 1, 2009. As previously disclosed, the interest rate payable has been reduced from 9% to 7% in accordance with the terms of the Certificate of Designations of the Blocker Preferred. These preferred membership interests were issued to investors in connection with our private exchange and cash tender offers, which were completed in December 2008.

Master Auto Finance Agreement with Chrysler

On April 30, 2009, as part of Chrysler LLC s (Chrysler) proposed industrial alliance with Fiat S.p.A. and efforts to effect a restructuring with the support of the U.S. Department of the Treasury (the Treasury), we entered into a Master Auto Finance Agreement Term Sheet with Chrysler (the Term Sheet) pursuant to which we will provide certain retail and wholesale financing for the Chrysler dealer network.

The financial services to be rendered by us will be offered for all brands distributed through the Chrysler dealer network in the United States, Canada, and Mexico, along with other international markets upon the mutual agreement of the parties. We will provide dealer financing and services and retail financing to Chrysler dealers and customers as we deem appropriate according to our credit policies and in our sole discretion. Chrysler is obligated to provide us with certain exclusivity privileges including the use of GMAC for designated minimum threshold percentages of certain of Chrysler s retail financing subvention programs. The agreement will extend for a period of four years with automatic one-year renewals unless either we or Chrysler provides sufficient notice of nonrenewal.

Under the Term Sheet, we have agreed to use commercially reasonable efforts to offer standard retail financing and to put in place new interim dealer funding for new and used inventory as promptly as practicable (with a target completion date of May 15, 2009) and to conduct dealer credit assessments of each Chrysler dealer within 180 days. All decisions to establish credit lines or to provide other products and services with a dealer will be at our sole discretion. We have also agreed to work with Chrysler to develop other dedicated or customized services as the parties may agree from time to time.

Chrysler has agreed to provide us with certain protections designed to minimize our risk of loss due to, among other things, the effects of a bankruptcy filing and reorganization by Chrysler. We are entitled to take certain actions to ensure that our gross unsecured exposure to Chrysler remains below designated levels, and Chrysler is obligated to provide us with cash collateral in the amount of our current good-faith estimate of unsecured exposure to Chrysler as a result of subvention programs over a rolling two-week period. GMAC and Chrysler have agreed to negotiate in good faith to appropriately adjust such protections following the successful stabilization of Chrysler s automobile manufacturing business and, in any event, on an annual basis.

We may terminate the Term Sheet on and after May 16, 2009, if, among other things, (i) the bankruptcy court administering the cases of Chrysler and its subsidiaries has not approved, among other things, the Term Sheet; (ii) we not have obtained certain regulatory approvals as previously discussed between the Treasury and us required to permit us to perform our obligations under the Term Sheet; or (iii) the Treasury shall not have (a) provided us with an amount and form of equity capital consistent with prior discussions between the Treasury and us and

(b) entered into a binding agreement with us with respect to the GMAC Dealer Transition Financing Support Program providing for reimbursement by the U.S. government of certain losses incurred by GMAC, GMAC Bank, or any other GMAC subsidiary in connection with the Term Sheet in an amount and on terms previously discussed with and mutually agreed by the Treasury and us.

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GMAC LLC

NOTES TO CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Supervisory Capital Assessment Program

The following table was released by the Federal Reserve Bank of Chicago (FRBC) on May 7, 2009, which reflects capital requirements for GMAC LLC as a result of the Board of Governors of the Federal Reserve System s Supervisory Capital Assessment Program (SCAP).

December 31, 2008 *($ in billions)*	**Amount**	**As % of RWA**
Tier 1 capital	$ 17.4	10.1%
Tier 1 common capital	11.1	6.4%
Risk-weighted assets	172.7	

	More adverse scenario	
Estimated for 2009 and 2010 for the more adverse scenario	**Amount**	**As % of loans**
Total estimated losses	$ 9.2	
First lien mortgages	2.0	10.2%
Second/junior lien mortgages	1.1	21.2%
Commercial and industrial loans	1.0	2.7%
Commercial real estate loans	0.6	33.3%
Credit card loans	n/a	n/a
Securities (available-for-sale and held-to-maturity)	0.5	n/a
Trading and counterparty	n/a	n/a
Other (a)	4.0	n/a
Memo: Purchase accounting adjustments	n/a	
Resources other than capital to absorb losses (b)	(0.5)	
SCAP buffer added for more adverse scenario		
(SCAP buffer is defined as additional Tier 1 Common/contingent Common)		
Indicated SCAP buffer as of December 31, 2008	6.7	
Less: Capital actions and effects of Q1 2009 results (c)	(4.8)	
SCAP buffer (d)	11.5	

(a) Includes other consumer and nonconsumer loans and miscellaneous commitments and obligations.
(b) Resources to absorb losses include preprovision net revenue less the change in the allowance for loan and lease losses.
(c) Capital actions include completed or contracted transactions since Q4 2008.
(d) GMAC LLC needs to augment the capital buffer with $11.5 billion of Tier 1 Common/contingent Common of which $9.1 billion must be new Tier 1 capital.
Note: Numbers may not sum due to rounding.

The SCAP was a forward-looking evaluation designed to estimate losses, revenues and reserve needs for bank holding companies for 2009 and 2010 under baseline, and more adverse , scenarios. Additional capital was required where the assessment under the more adverse scenario indicated such a need. The estimates provided are not forecasts of expected losses or revenues. The amount of capital needed that is in addition to the Indicated SCAP Buffer as of December 31, 2008 is primarily related to GMAC s unique risk concentration and the quality and composition of our common equity.

In connection with the SCAP, we have committed that no later than November 9, 2009, we will have increased the common shareholder equity component of Tier 1 capital by $11.5 billion. By the same date, we will increase overall Tier 1 capital by $9.1 billion. Depending on the method of capital augmentation used (e.g., issuance of new common equity or issuance of mandatorily convertible preferred shares or conversion of existing equity into a form of Tier 1 common equity) the increase in common shareholders equity may accomplish the increase in overall Tier 1 capital. We are required to provide the FRBC with information regarding how we intend to accomplish these increases no later than June 8, 2009.

The capital amounts described above do not include the additional capital we will require to finance Chrysler dealers and customers pursuant to the Master Auto Finance Agreement Term Sheet (MAFA) that we announced on May 5, 2009. As previously disclosed, the U.S. Government has indicated that it intends to support GMAC by providing the capital required to support the financing of Chrysler dealers and customers pursuant to the MAFA.

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

Selected Financial Data

The selected historical financial information set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, our condensed consolidated financial statements, and the notes to consolidated financial statements. The historical financial information presented may not be indicative of our future performance.

As of and for the three months ended March 31, *($ in millions)*	**2009**	2008
Financial statement data		
Total financing revenue and other interest income	**$ 3,812**	$ 5,404
Interest expense	**2,181**	3,179
Depreciation expense on operating lease assets	**1,153**	1,397
Net financing revenue	**478**	828
Total other revenue	**1,721**	1,582
Total net revenue	**2,199**	2,410
Provision for loan losses	**843**	474
Total other noninterest expense	**2,154**	2,507
Loss before income tax (benefit) expense	**(798)**	(571)
Income tax (benefit) expense (a)	**(123)**	18
Net loss	**$ (675)**	$ (589)
Total assets	**$ 179,552**	$ 243,354
Total debt	**$ 113,424**	$ 185,294
Total equity	**$ 22,021**	$ 14,764
Financial ratios (b)		
Return on assets	**(1.50)%**	(0.97)%
Return on equity	**(12.26)%**	(15.96)%
Equity to assets ratio	**12.26%**	6.07%
Regulatory capital ratios		
Tier 1 capital	**10.35%**	n/a (c)
Total risk-based capital	**11.80%**	n/a (c)
Tier 1 leverage	**11.23%**	n/a (c)

(a) Effective November 28, 2006, GMAC, along with certain of its U.S. subsidiaries, converted to limited liability companies (LLCs) and became pass-through entities for U.S. federal income tax purposes.

(b) Ratios computed based on period-end total assets and total equity as of March 31, 2009 and 2008, respectively.

(c) Not applicable (n/a) as of March 31, 2008, as GMAC did not become a bank holding company until December 24, 2008.

Overview

GMAC is a leading, independent, globally diversified, financial services firm with approximately $180 billion of assets at March 31, 2009. Founded in 1919 as a wholly owned subsidiary of General Motors Corporation (General Motors or GM), GMAC was established to provide GM dealers with the automotive financing necessary to acquire and maintain vehicle inventories and to provide retail customers the means by which to finance vehicle purchases through GM dealers. On November 30, 2006, GM sold a 51% interest in us (the Sale Transactions) to FIM Holdings LLC (FIM Holdings), an investment consortium led by Cerberus FIM Investors, LLC, the sole managing member. The consortium also includes an affiliate of Citigroup Inc., Aozora Bank Ltd., and a subsidiary of The PNC Financial Services Group, Inc. On December 24, 2008, the Board of Governors of the Federal Reserve System approved our application to become a bank holding company under the Bank Holding Company Act of 1956, as amended. Refer to Note 1 to the Condensed Consolidated Financial Statements for further details of current GMAC ownership.

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We currently operate in the following primary lines of business Global Automotive Finance, Mortgage, Insurance, and Corporate and Other. The following table summarizes the operating results of each line of business for the three months ended March 31, 2009 and 2008. Operating results for each of the lines of business are more fully described in the MD&A sections that follow.

	Three months ended March 31,		Favorable/ (unfavorable)
($ in millions)	**2009**	2008	**% change**
Total net revenue (loss)			
Global Automotive Finance	**$ 1,068**	$ 1,234	**(13)**
Mortgage	**1,021**	(21)	**n/m**
Insurance	**915**	1,247	**(27)**
Corporate and Other	**(805)**	(50)	**n/m**
Total	**$ 2,199**	$ 2,410	**(9)**
Net (loss) income			
Global Automotive Finance	**$ 225**	$ 258	**(13)**
Mortgage	**(125)**	(859)	**85**
Insurance	**50**	132	**(62)**
Corporate and Other	**(825)**	(120)	**n/m**
Total	**$ (675)**	$ (589)	**(15)**

n/m = not meaningful

Our Global Automotive Finance operations offer a wide range of financial services and products (directly and indirectly) to retail automotive consumers, automotive dealerships, and other commercial businesses. Our Global Automotive Finance operations consist of two separate reportable segments North American Automotive Finance operations and International Automotive Finance operations. The products and services offered by our Global Automotive Finance operations include the purchase of retail installment sales contracts and leases, offering of term loans, financing of dealer floorplans and other lines of credit to dealers, fleet leasing, and vehicle remarketing services. In addition, our Global Automotive Finance operations utilize asset securitization and whole-loan sales to the extent available as a critical component of our diversified funding strategy.

During late 2008, in response to the credit environment and other market conditions, our North American Automotive Finance operations temporarily implemented a more conservative purchase policy for consumer automotive financing. These changes in underwriting were related to the market environment, which reduced our access to funding and increased our cost of funds. Since obtaining bank holding company status in late December 2008, we have been able to modify our credit criteria and somewhat expand our consumer purchase policy.

International Automotive Finance operations announced plans to cease retail and wholesale originations in Australia, New Zealand, and retail originations in several European markets. Our International Automotive Finance operations also announced plans to reduce retail originations in certain Latin American markets due to the current market environment that has reduced our access to funding and increased funding costs. We further plan to implement a more conservative pricing policy throughout remaining European markets to more closely align lending activity with the current capital markets. As a result of these actions, automotive financing volume was significantly lower in the first three months of 2009 as compared to the same period in 2008. We expect these actions to remain in place until the credit markets stabilize and accessibility improves.

Our Mortgage operations engage in the origination, purchase, servicing, sale, and securitization of consumer (i.e., residential) mortgage loans and mortgage-related products. Mortgage operations include the ResCap LLC legal entity, the mortgage operations of GMAC Bank, and the Canadian mortgage operations of ResMor Trust. In response to market conditions, our Mortgage operations have substantially eliminated production of loans that do not conform to the underwriting guidelines of Fannie Mae, Freddie Mac, and Ginnie Mae. Mortgage operations have further curtailed activities related to both their business capital group (which provides financing and equity capital to residential land developers and homebuilders) and their international business group (which has substantially all its operations outside of the United States) except for insured mortgages in Canada. Certain agreements are in place between our Mortgage operations and us that restrict our Mortgage operations ability to

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declare dividends or prepay subordinated indebtedness owed to us that may inhibit our ability to return funds for dividend and debt payments.

Our Insurance operations offer vehicle service contracts and underwrite personal automobile insurance coverages (ranging from preferred to nonstandard risks), homeowners insurance coverage, and selected commercial insurance coverages in the United States, Canada, and internationally. We are a leading provider of vehicle service contracts with mechanical breakdown and maintenance coverages. Our vehicle service contracts offer vehicle owners and lessees mechanical repair protection and roadside assistance for new and used vehicles beyond the manufacturer s new vehicle warranty. We underwrite and market nonstandard, standard, and preferred-risk physical damage and liability insurance coverages for passenger automobiles, motorcycles, recreational vehicles, and commercial automobiles through independent agency, direct response, and internet channels. Additionally, we market private-label insurance through a long-term agency relationship with Homesite Insurance, a national provider of home insurance products. We also provide commercial insurance primarily covering dealers wholesale vehicle inventory.

Corporate and Other operations consist of our Commercial Finance Group, certain equity investments, corporate activities, and reclassifications and eliminations between the reportable segments.

Consolidated Results of Operations

The following table summarizes our consolidated operating results for the periods shown.

	Three months ended March 31,		**Favorable/ (unfavorable)**
($ in millions)	**2009**	2008	**% change**
Revenue			
Total financing revenue and other interest income	**$ 3,812**	$ 5,404	**(29)**
Interest expense	**2,181**	3,179	**31**
Depreciation expense on operating lease assets	**1,153**	1,397	**17**
Net financing revenue	**478**	828	**(42)**
Other revenue			
Net servicing income	**48**	880	**(95)**
Insurance premiums and service revenue earned	**864**	1,109	**(22)**
Gain (loss) on mortgage and automotive loans, net	**296**	(600)	**149**
Gain on extinguishment of debt	**644**	488	**32**
Other loss on investments	**(19)**	(445)	**96**
Other income, net of losses	**(112)**	150	**(175)**
Total other revenue	**1,721**	1,582	**9**
Total net revenue	**2,199**	2,410	**(9)**
Provision for loan losses	**843**	474	**(78)**
Noninterest expense			
Insurance losses and loss adjustment expenses	**553**	630	**12**
Other operating expenses	**1,601**	1,877	**15**
Total noninterest expense	**2,154**	2,507	**14**
Loss before income tax (benefit) expense	**(798)**	(571)	**(40)**
Income tax (benefit) expense	**(123)**	18	**n/m**
Net loss	**$ (675)**	$ (589)	**(15)**

n/m = not meaningful

We reported a net loss of $675 million for the three months ended March 31, 2009, compared to $589 million for the three months ended March 31, 2008. Results during the three months ended March 31, 2009, were attributable to a significant loss at our Mortgage operations, caused by continued adverse conditions in the mortgage business, and significant declines in new vehicle financing and operating lease originations due to the economic recession and declining GM vehicle sales volume. In addition, results were impacted unfavorably by valuation adjustments on mortgage servicing assets, weak credit performance, and derivative activity. These adverse impacts were partially offset by an increase in the gain on extinguishment of debt as a result of a $634 million gain on the extinguishment of certain GMAC debt as part of privately negotiated transactions. During the same period in 2008, ResCap recognized gains on extinguishment of debt of $480 million resulting from our contribution of ResCap notes that had been purchased previously in open market repurchase transactions.

Total financing revenue and other interest income decreased by 29% in the three months ended March 31, 2009, respectively, compared to the same period in 2008, primarily due to lower asset levels at our Global Automotive Finance operations and Mortgage operations as a result of lower asset origination levels. Consumer and operating lease revenue (along with the related depreciation expense) at our Global Automotive Finance operations decreased as a result of declining originations due to the continued credit market dislocation, low consumer confidence, and our strategic decision in late 2008 to curtail leasing in certain markets and increase pricing due to the significant decline in used vehicle prices. Declines in asset levels at our Mortgage operations resulted from decreases in loan production, asset sales, continued portfolio run-off, and an increase in nonperforming assets due to higher delinquencies. Our International Automotive Finance operations experienced lower commercial asset levels due to operations winding down in several countries and unfavorable foreign currency translation adjustments.

Interest expense decreased 31% in the three months ended March 31, 2009, compared to the same period in 2008. Interest expense decreased $652 million at our Global Automotive Finance operations primarily as a result of declining interest rates, decreases in interest-bearing liabilities due to the bond exchange and debt maturities, foreign currency impacts, and a shift in the funding mix to lower yielding instruments. The $583 million decrease during the period at our Mortgage operations was primarily due to lower average borrowings as a result of a $24.3 billion reduction in the asset base, a lower average cost of funds due to declining interest rates, and the extinguishment of ResCap debt. The decrease in interest expense was offset by a $243 million increase at our Corporate and Other operations segment primarily due to the amortization of the discount associated with the December 2008 bond exchange.

Net servicing income decreased 95% in the three months ended March 31, 2009, compared to the same period in 2008. The decrease was primarily due to unfavorable mortgage servicing valuations reflected by reduced cash flows and increased prepayment assumptions as a result of lower market interest rates in the first quarter of 2009. In addition, the hedge performance was significantly less favorable for the three months ended March 31, 2009, compared to the same period in 2008, primarily due to the changes in the spreads between our servicing assets and the derivative instruments we use to manage the interest rate risk associated with those assets. Our ability to fully hedge interest rate risk was restricted in the latter half of 2008 and during the three months ended March 31, 2009, by the limited availability of willing counterparties to enter into forward arrangements.

Insurance premiums and service revenue earned totaled $864 million for the three months ended March 31, 2009, compared to $1.1 billion for the same period in 2008. Insurance premiums and service revenue earned was adversely affected by a decrease in U.S. personal auto policies in force and lower volume in dealership-related products due to sharp declines in vehicle sales, challenging domestic pricing conditions, the sale of our U.S. reinsurance managing general agency in November 2008, and the U.S. dollar strengthening against foreign currencies within our international operations.

The net gain on mortgage and automotive loans was $296 million for the three months ended March 31, 2009, compared to a net loss of $600 million for the three months ended March 31, 2008. The improvement in 2009 was primarily due to significant unfavorable valuation adjustments recorded in 2008 on our mortgage loans held-for-sale and commitments, primarily in the United Kingdom and continental Europe, as well as on our mortgage loans held-for-sale in our purchased distressed asset portfolio. This favorability was partially offset by a decrease of $42 million in the net gain on automotive loans due to a decline in consumer asset originations, resulting in fewer sales transactions, and therefore decreased gains.

Gain on extinguishment of debt totaled $644 million for the three months ended March 31, 2009, compared to $488 million for the three months ended March 31, 2008. The gains recognized during the first quarter of 2009 resulted primarily within our Corporate and Other operations as a result of a $634 million gain on the extinguishment of certain GMAC debt as part of privately negotiated transactions. During the same period in 2008, ResCap recognized gains on extinguishment of debt of $480 million resulting from the contribution of $1.2 billion face of ResCap notes that had been purchased previously in open market repurchase transactions.

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Other loss on investments was $19 million for the three months ended March 31, 2009, compared to $445 million for the three months ended March 31, 2008. The decrease was primarily related to significant declines in the fair value of residual interests during the three months ended March 31, 2008, and fewer realized losses on investment securities. The valuation adjustments included declines in the fair value of residual interests as a result of increased credit losses, rating agency downgrades, declines in the value of underlying collateral, market illiquidity, and changes in discount rate assumptions. This favorability was partially offset by other-than-temporary impairments of $46 million recognized during the three months ended March 31, 2009, on certain investment securities due to continued unfavorable market conditions.

Other income, net of losses, decreased $262 million for the three months ended March 31, 2009, compared to the same period in 2008. The decrease during the three months ended March 31, 2009, was primarily due to unfavorable net derivative activity, an $87 million fair value impairment at our Commercial Finance group on the assets of its resort finance business, a decrease in securitization income at our Global Automotive Finance operations as a result of decreased securitization activity and a decrease in full service leasing fees.

The provision for loan losses increased 78% during the three months ended March 31, 2009, compared to the same period in 2008. The increase in the provision during the period was primarily due to a higher provision on the GMAC Bank loan portfolio and the loan portfolios in the United Kingdom and continental Europe as a result of increased delinquencies and higher severity and frequency assumptions. In addition, the increase in provision expense in 2009 resulted from additional specific reserves recorded against a number of distressed loans within our real estate lending portfolio as a result of the continued decline in the homebuilding industry. Our Global Automotive Finance operations experienced a 10% increase primarily due to an increase in the commercial provision as a result of deteriorating dealer financial health. This increase was partially offset by a decrease in the provision for retail balloon contracts as a result of portfolio run-off and a strengthening used vehicle market.

Insurance losses and loss adjustment expenses totaled $553 million for the three months ended March 31, 2009, compared to $630 million for the three months ended March 31, 2008. The decrease was primarily driven by the sale of our U.S. reinsurance agency, lower loss experience in our U.S. vehicle service contract and personal insurance businesses as a result of lower volumes, and the U.S. dollar strengthening against foreign currencies within our international operations.

Other operating expense decreased 15% for the three months ended March 31, 2009, compared to the same period in 2008. Expenses decreased in the period primarily due to decreased compensation and benefits expense of $195 million, favorability related to operating lease disposals of $70 million, decreased insurance commissions of $51 million, reduced restructuring costs of $28 million, and decreased automotive remarketing and repossession expenses of $26 million. These favorable impacts were partially offset by higher mortgage representation and warranty expense of $155 million compared to the same period in 2008.

Our consolidated tax benefit was $123 million for the three months ended March 31, 2009, compared to an expense of $18 million for the same period in 2008. The changes were primarily due to operating losses in our Mortgage operations and our Global Automotive Finance operations, particularly in our foreign operations.

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Global Automotive Finance Operations

Results of Operations

The following table summarizes the operating results of our Global Automotive Finance operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments and include eliminations of balances and transactions among our North American and International reportable segments.

	Three months ended March 31,		
($ in millions)	**2009**	2008	**Favorable/ (unfavorable) % change**
Revenue			
Consumer	**$ 886**	$ 1,138	**(22)**
Commercial	**365**	441	**(17)**
Loans held-for-sale	**55**	156	**(65)**
Interest and dividend income	**358**	478	**(25)**
Operating leases	**1,724**	2,103	**(18)**
Total financing revenue and other interest income	**3,388**	4,316	**(22)**
Interest expense	**1,524**	2,176	**30**
Depreciation expense on operating leases	**1,153**	1,396	**17**
Net financing revenue	**711**	744	**(4)**
Other revenue			
Servicing fees	**67**	78	**(14)**
Gain on automotive loans, net	**106**	148	**(28)**
Other income (loss) on investments	**20**	(9)	**n/m**
Other income	**164**	273	**(40)**
Total other revenue	**357**	490	**(27)**
Total net revenue	**1,068**	1,234	**(13)**
Provision for loan losses	**189**	172	**(10)**
Noninterest expense	**674**	766	**12**
Income before income tax (benefit) expense	**205**	296	**(31)**
Income tax (benefit) expense	**(20)**	38	**153**
Net income	**$ 225**	$ 258	**(13)**
Total assets	**$ 131,468**	$ 168,688	**(22)**

n/m = not meaningful

Net income for our Global Automotive Finance operations was $225 million for the three months ended March 31, 2009, compared to $258 million for the three months ended March 31, 2008. Results continue to be adversely affected by the economic recession and dislocation in the capital and credit markets. Financing revenue significantly declined as a result of significant declines in new vehicle financing and operating lease originations. Partially offsetting the negative results were decreases in interest expense and a strengthening used vehicle market.

Total financing revenue and other interest income decreased 22% for the three months ended March 31, 2009, compared to the same period in 2008. Operating lease revenue (along with the related depreciation expense) decreased because new lease originations significantly declined.

Lease originations decreased significantly in comparison with 2008 levels due to the continued credit market dislocation and increased lease pricing initiated in late 2008. In addition to operating lease revenue, consumer and commercial revenue also decreased during the period. Consumer revenue (combined with interest income on consumer loans held-for-sale) decreased 27% primarily due to lower consumer asset levels as a result of decreased originations due to the general economic recession and declining GM vehicle sales volume. Additionally, unfavorable foreign currency translation adjustments negatively affected consumer revenue. The decline in consumer asset levels (including loans held-for-sale) was $16.8 billion, or 30%, as a result of lower industry sales. The $55 million of income on consumer loans held-for-sale for the three months ended March 31, 2009, related to interest on loans that are expected to be sold in whole-loan and securitization transactions over the next twelve months. Commercial revenue decreased 17%, compared to the three months ended March 31, 2008. Our International Automotive Finance operations experienced lower commercial asset

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levels due to operations winding down in several countries and unfavorable foreign currency translation adjustments partially offset by certain locations experiencing higher average yields. Additionally, our North American Automotive Finance operations experienced lower average yields on commercial assets offset by an increase in commercial asset levels. Interest and dividend income decreased 25% primarily due to a reduction in the average balance of investment securities and lower interest rates.

Interest expense decreased 30% for the three months ended March 31, 2009, compared to the same period in 2008. The decrease was driven by lower interest rates, a decrease in the average balance of interest bearing liabilities, favorable foreign currency adjustments, and a shift in the funding mix from higher yielding demand notes to lower yielding certificates of deposit.

Servicing fees decreased 14% for the three months ended March 31, 2009, compared to the same period in 2008. The decrease in servicing fees was related to the decline in consumer asset levels and correlates with declines in industry sales.

Net gain on automotive loans decreased 28% for the three months ended March 31, 2009, compared to the same period in 2008. The decline in consumer asset originations for our North American Automotive Finance operations resulted in fewer sales transactions and, consequently, decreased gains recognized during the period.

Other income on investments was $20 million for the three months ended March 31, 2009, compared to a loss of $9 million during the same period in 2008. The favorable variance was primarily related to fewer realized losses on investment securities. Additionally, income attributable to retained interests in securitizations increased.

Other income decreased 40% for the three months ended March 31, 2009, compared to the same period in 2008, due to lower in securitization income as a result of decreased securitization activity, unfavorable mark-to-market adjustments on derivatives, and a decrease in full service leasing fees.

The provision for loan losses increased 10% for the three months ended March 31, 2009, compared to the three months ended March 31, 2008. The increase related to both commercial and retail loans was the result of the continuing economic recession. The commercial provision was particularly impacted by deteriorating dealer financial health. The increase in the provision was partially offset by a decrease in the provision for retail balloon contracts. Loan losses on retail balloon contracts have decreased primarily as a result of portfolio run-off and a strengthening used vehicle market. The used vehicle market experienced increased demand, particularly for less expensive vehicles, which in turn has alleviated pressure on residual values in the related portfolios.

Other noninterest expense decreased 12% for the three months ended March 31, 2009, compared to the same period in 2008. The decrease was primarily related to favorable remarketing results, lower operating lease disposal expenses, lower technology and communication expenses, and lower full-service leasing vehicle maintenance costs.

Our Global Automotive Finance operations experienced a tax benefit of $20 million for the three months ended March 31, 2009, compared to income tax expense of $38 million for the three months ended March 31, 2008. The tax benefit during the period primarily resulted from operating losses, particularly in our foreign operations. Certain of our U.S. subsidiaries are not subject to U.S. federal, state, or local income tax expense due to their status as pass-through entities for U.S. federal income tax purposes. Our banking and foreign subsidiaries are generally taxable corporations and continue to be subject to U.S. federal, state, local, and foreign income tax.

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Automotive Financing Volume

The following tables summarize our new and used vehicle consumer and wholesale financing volume and our share of GM consumer and wholesale volume.

Three months ended March 31, *(units in thousands)*	**GMAC consumer automotive financing volume**		**% Share of GM retail sales**	
	2009	2008	**2009**	2008
Consumer financing				
GM new vehicles				
North America				
Retail contracts	**66**	182	**17**	28
Leases		136		21
Total North America	**66**	318	**17**	49
International (retail contracts and leases)	**87**	149	**19**	25
Total GM new units financed	**153**	467	**18**	37
Used units financed	**27**	133		
Non-GM new units financed	**7**	25		
Total consumer automotive financing volume	**187**	625		

Our consumer automotive financing volume and penetration levels are significantly influenced by the nature, timing, and extent of GM s use of rate, residual, and other financing incentives for marketing purposes on consumer retail automotive contracts and leases. Penetration levels for our Global Automotive Finance operations were significantly lower in 2009 compared to 2008, mainly due to tighter underwriting standards, lower industry sales, and efforts to align our originations to levels consistent with reduced funding sources as a result of the disruption in the capital markets. Additionally, lease originations decreased due to the continued credit market dislocation and the increased lease pricing initiated in late 2008. These adverse conditions were partially offset following an investment we received from the U.S. Treasury s Troubled Asset Relief Program on December 29, 2008. The investment provided the opportunity to begin to again expand financing to consumers and dealers during 2009.

Three months ended March 31, *(units in thousands)*	**GMAC wholesale volume**		**% Share of GM retail sales**	
	2009	2008	**2009**	2008
GM new vehicles				
North America	**247**	652	**70**	76
International	**555**	766	**82**	84
Total GM units financed	**802**	1,418	**78**	80
Non-GM units financed	**34**	48		
Total wholesale volume	**836**	1,466		

Our wholesale automotive financing continued to be the primary funding source for GM-dealer inventories; however, penetration levels decreased for the three months ended March 31, 2009, compared to the same period in 2008. The decrease was primarily due to lower wholesale volume caused by challenging domestic and international economic environments. The largest decline for our International operations occurred within the European operations.

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Allowance for Loan Losses

The following tables summarize activity related to the allowance for loan losses for our Global Automotive Finance operations.

	Three months ended March 31,					
	2009			2008		
($ in millions)	**Consumer**	**Commercial**	**Total**	Consumer	Commercial	Total
Balance at January 1,	**$ 1,394**	**$ 223**	**$ 1,617**	$ 1,309	$ 61	$ 1,370
Provision for loan losses (a)	**151**	**38**	**189**	168	4	172
Charge-offs						
Domestic	**(233)**	**(28)**	**(261)**	(215)	(3)	(218)
Foreign	**(66)**	**(4)**	**(70)**	(55)		(55)
Total charge-offs	**(299)**	**(32)**	**(331)**	(270)	(3)	(273)
Recoveries						
Domestic	**44**	**1**	**45**	45		45
Foreign	**15**		**15**	15		15
Total recoveries	**59**	**1**	**60**	60		60
Other	**(8)**	**(1)**	**(9)**	9	2	11
Balance at March 31,	**$ 1,297**	**$ 229**	**$ 1,526**	$ 1,276	$ 64	$ 1,340
Allowance coverage (b)	**3.75%**	**0.85%**	**2.48%**	2.77%	0.22%	1.80%

(a) Provision for loan losses include amounts related to balloon finance contracts of $(57) million and $46 million for the three months ended March 31, 2009 and 2008, which represents primarily residual loss exposure.

(b) Represents the related allowance for loan losses as a percentage of total on-balance sheet automotive finance receivables and loans excluding loans held-for-sale.

The following table summarizes the allocation of the allowance for loan losses by product type for our Global Automotive Finance operations.

	March 31, 2009			March 31, 2008		
($ in millions)	**Allowance for loan losses**	**Allowance as a % of the total asset class**	**Allowance as a % of the total allowance**	Allowance for loan losses	Allowance as a % of the total asset class	Allowance as a % of the total allowance
Consumer						
Domestic						
Retail automotive loans	**$ 703**	**2.03**	**46.04**	$ 861	1.87	64.27
Retail balloon contracts	**318**	**0.92**	**20.83**	112	0.24	8.38
Foreign	**276**	**0.80**	**18.07**	303	0.66	22.59
Total consumer	**$ 1,297**	**3.75**	**84.94**	$ 1,276	2.77	95.24
Commercial						
Domestic						
Wholesale loans	**$ 118**	**0.44**	**7.76**	$ 26	0.09	1.94

Automotive leases	**10**	**0.04**	**0.63**	5	0.02	0.39
Automotive term loans	**47**	**0.17**	**3.11**	1		0.11
Foreign	**54**	**0.20**	**3.56**	31	0.11	2.32
Total commercial	**$ 229**	**0.85**	**15.06**	$ 64	0.22	4.76
Allowance for loan losses	**$ 1,526**	**2.48**	**100.00**	$ 1,340	1.80	100.00

The allowance for consumer loan losses increased at March 31, 2009, compared to March 31, 2008. The increase in the allowance was primarily attributable to losses incurred on retail balloon finance contracts held by our North American operations throughout most of 2008. The used vehicle market continued to decline, an increasing number of customers were returning vehicles at the end of the contract term, and the vehicles were sold at auction for significant losses. A positive offset is that the market recently improved for less expensive used vehicles during 2009 alleviating some of the pressure on residual values. In addition to the overall increase in the level of the allowance, the allowance for loan losses as a percentage of the total on-balance sheet consumer portfolio also increased in comparison with 2008 levels. The use of off-balance sheet securitizations and whole-loan sales activity within our North American Automotive Finance operations during 2008 and fewer new asset originations in 2009 has resulted in an on-balance sheet portfolio with a relatively higher overall credit risk profile than historic levels. The process of building a pool of assets to be included in a securitization or sale typically excludes accounts that are greater than 30-days delinquent. In addition, the process involves selecting from a pool of receivables that are currently outstanding and, thereby, represent relatively seasoned accounts. A seasoned portfolio that excludes delinquent accounts historically results in better credit performance than the on-balance sheet portfolio of retail finance receivables on which the allowance for loan losses is based.

The allowance for commercial loan losses increased at March 31, 2009, compared to March 31, 2008, primarily due to economic pressures placed on dealers as a result of declining sales volume, declining financial position, and a challenging credit environment.

Consumer Credit

Loan losses in our consumer automotive retail contract and lease portfolio are influenced by general business and economic conditions, including unemployment rates, bankruptcy filings, and used vehicle prices. We analyze loan losses according to frequency (i.e., the number of contracts that are ultimately charged off) and severity (i.e., the dollar magnitude of loss per charge-off occurrence). We manage credit risk through our contract purchase policy, credit approval process (including our proprietary credit scoring system), and servicing capabilities.

The following tables summarize pertinent loss experience in the consumer managed and on-balance sheet automotive retail contract portfolios. The managed portfolio includes retail receivables held on-balance sheet for investment and off-balance sheet receivables. The off-balance sheet portion of the managed portfolio includes receivables securitized and sold that we continue to service and in which we retain an interest or risk of loss; but it excludes securitized and sold finance receivables that we continue to service but in which we retain no interest or risk of loss. We believe that the disclosure of the credit experience of the managed portfolio presents a more complete presentation of our risk of loss in the underlying assets (typically in the form of a subordinated retained interest). Consistent with the presentation on our Condensed Consolidated Balance Sheets, retail contracts presented in the tables below represent the principal balance of the finance receivables discounted for any unearned interest income and rate support received from GM.

Three months ended March 31,	**Average retail contracts**		**Charge-offs, net of recoveries (a)**		**Annualized net charge-off % rate**	
($ in millions)	**2009**	2008	**2009**	2008	**2009**	2008
Managed						
North America	**$ 37,076**	$ 49,994	**$ 270**	$ 196	**2.91**	1.57
International	**14,271**	18,991	**39**	35	**1.08**	0.74
Total managed	**$ 51,347**	$ 68,985	**$ 309**	$ 231	**2.41**	1.34
On-balance sheet						
North America	**$ 25,178**	$ 35,771	**$ 191**	$ 157	**3.03**	1.76
International	**14,271**	18,991	**39**	35	**1.08**	0.74
Total on-balance sheet	**$ 39,449**	$ 54,762	**$ 230**	$ 192	**2.33**	1.40

(a) Net charge-offs exclude amounts related to the lump-sum payments on balloon finance contracts. The amount totaled $27 million, $42 million of the period ended March 31, 2009 and 2008, respectively.

Charge-offs in both the North American and International managed portfolios increased during the three months ended March 31, 2009, compared to the same period in 2008. In North America, both frequency and severity of losses increased compared to prior year levels, mainly due to overall weaker economic conditions and reductions in values of used vehicle prices in comparison with the same period in 2008. Increased charge-offs in the International portfolio primarily reflect weakness in Latin America.

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The following table summarizes pertinent delinquency experience in the consumer automotive retail contract portfolio.

	% of retail contracts more than 30 days past due (a)			
	Managed		On-balance sheet	
March 31,	**2009**	2008	**2009**	2008
North America	**2.86**	2.05	**2.90**	2.23
International	**2.77**	2.15	**2.77**	2.15
Total	**2.82**	2.09	**2.84**	2.19

(a) Past due contracts are calculated on the basis of the average number of contracts delinquent during a month and exclude accounts in bankruptcy.

Delinquencies in both the managed and on-balance sheet portfolio of both North America and the International operations increased as of March 31, 2009, compared to March 31, 2008. We attribute much of the increase to weaker economic conditions, particularly in North America, Spain, and Columbia, and a smaller asset base, particularly in North America and Europe. As a result of the increased delinquencies, we expanded resources dedicated to servicing and collection efforts.

In addition to the preceding loss and delinquency data, the following tables summarize bankruptcy information for the U.S. consumer automotive retail contract portfolio (which represented approximately 50% and 52% of our on-balance sheet consumer automotive retail contract portfolio as of March 31, 2009 and 2008) and repossession information for the Global Automotive Finance operations consumer automotive retail contract portfolio.

	Managed		On-balance sheet	
Three months ended March 31,	**2009**	2008	**2009**	2008
United States				
Average retail contracts in bankruptcy *(in units)* (a)	**46,939**	51,430	**36,248**	46,435
Bankruptcies as a percentage of average number of contracts outstanding	**2.28%**	1.94%	**2.88%**	2.58%
North America				
Retail contract repossessions *(in units)*	**22,552**	21,280	**15,806**	16,412
Annualized repossessions as a percentage of average number of contracts outstanding	**3.62%**	2.73%	**3.79%**	3.03%
International				
Retail contract repossessions *(in units)*	**3,511**	2,794	**3,511**	2,794
Annualized repossessions as a percentage of average number of contracts outstanding	**0.86%**	0.66%	**0.86%**	0.66%

(a) Includes those accounts where the customer has filed for bankruptcy and is not yet discharged, the customer was discharged from bankruptcy but did not reaffirm their loan with GMAC, and other special situations where the customer is protected by applicable law with respect to GMAC s normal collection policies and procedures.

The number of bankruptcies as a percentage of the average number of U.S. retail contracts outstanding increased due to more consumers experiencing hardships during the economic recession. The number of average retail contracts in bankruptcy has declined consistent with the declines in the size of the U.S. retail portfolio.

Consistent with the increase in delinquency trends, our North America and International operations experienced increased repossessions for the three months ended March 31, 2009, compared to the same period in 2008. The increase was primarily attributable to the impact of weak economic conditions on our consumer contracts.

Commercial Credit

The credit risk of our commercial portfolio is tied to overall economic conditions in the countries in which we operate and the particular circumstances of individual borrowers.

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At March 31, 2009, the commercial receivables that had been securitized and accounted for as off-balance sheet transactions primarily represented wholesale lines of credit extended to automotive dealerships, which historically have experienced low charge-offs, and some dealer term loans. As a result, the following table presents only the on-balance sheet commercial portfolio credit experience.

	Total loans		Impaired loans (a)	
($ in millions)	**March 31, 2009**	December 31, 2008	**March 31, 2009**	December 31, 2008
Wholesale	**$ 23,376**	$ 24,129	**$ 1,292**	$ 1,312
Impaired wholesale loans as a percentage of total wholesale loans			**5.53%**	5.44%
Other commercial financing	**3,698**	3,986	**342**	248
Impaired other commercial loans as a percentage of total other commercial financing loans			**9.25%**	6.22%
Total on-balance sheet	**$ 27,074**	$ 28,115	**$ 1,634**	$ 1,560
Impaired loans as a percentage of total loans			**6.04%**	5.55%

(a) Includes loans where it is probable that we will be unable to collect all amounts due according to the terms of the loan.

The percentage of loans impaired increased as of March 31, 2008, compared to December 31, 2008, due to economic pressures placed on dealers as a result of declining sales volume, declining financial positions, and a challenging credit environment. Additionally, our asset base is smaller compared to 2008. These receivables are generally secured by vehicles, real estate, other forms of collateral, and certain GM repurchase obligations, which help mitigate losses on these loans in the event of default.

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Mortgage Operations

Results of Operations

The following table summarizes the operating results for our Mortgage operations for the periods shown. Our Mortgage operations include the ResCap LLC legal entity, the mortgage operations of GMAC Bank, and the Canadian mortgage operations of ResMor Trust. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

	Three months ended March 31,		Favorable/ (unfavorable)
($ in millions)	**2009**	2008	**% change**
Revenue			
Total financing revenue and other interest income	**$ 581**	$ 1,135	**(49)**
Interest expense	**522**	1,105	**53**
Net financing revenue	**59**	30	**97**
Servicing fees	**342**	392	**(13)**
Servicing asset valuation and hedge activities, net	**(360)**	410	**(188)**
Net servicing (loss) income	**(18)**	802	**(102)**
Gain (loss) on mortgage loans, net	**193**	(748)	**126**
Gain on extinguishment of debt	**900**	480	**88**
Other income, net of losses	**(113)**	(585)	**81**
Total other revenue (expense)	**980**	(853)	**n/m**
Total net revenue (loss)	**1,021**	(21)	**n/m**
Provision for loan losses	**650**	300	**(117)**
Noninterest expense	**614**	584	**(5)**
Loss before income tax expense	**(243)**	(905)	**73**
Income tax benefit	**118**	46	**157**
Net loss	**$ (125)**	$ (859)	**85**
Total assets	**$ 49,602**	$ 73,869	**(33)**

n/m = not meaningful

Our Mortgage operations experienced a net loss of $125 million for the three months ended March 31, 2009, compared to a net loss of $859 million for the three months ended March 31, 2008. The 2009 results were adversely affected by conditions in the domestic housing markets and the foreign mortgage and capital markets. These adverse conditions resulted in lower net interest margins, servicing asset valuation losses, higher provisions for loan losses and assets sold with recourse, and reduced loan production. As market conditions persist, these unfavorable impacts on our results of operations may continue. Partially offsetting these losses were gains of $900 million recognized on the extinguishment of ResCap debt and lower operating costs resulting from our restructuring efforts in late 2007 and 2008.

Net financing revenue was $59 million for the three months ended March 31, 2009, compared to $30 million for the three months ended March 31, 2008. Total financing revenue and other interest income declined significantly due to decreases in asset levels resulting from lower loan production, asset sales, and continued portfolio run-off. The decrease in total financing revenue and other interest income was also attributable to a rise in nonperforming assets caused by higher delinquencies. Interest expense decreased primarily due to a lower funding base associated with lower asset levels, a lower average cost of funds due to declining interest rates, and the extinguishment of ResCap debt over the past twelve months.

Net servicing loss was $18 million for the three months ended March 31, 2009, compared to income of $802 million for the three months ended March 31, 2008. The decrease was due to negative mortgage servicing valuations reflected by reduced cash flows and increased prepayment assumptions as a result of lower market interest rates in the first quarter of 2009. In addition, the hedge performance was significantly less favorable for the three months ended March 31, 2009, compared to the same period in 2008, primarily due to the changes in the spreads between our servicing assets and the derivative instruments we use to manage the interest rate risk associated with those assets. Our ability to fully hedge interest rate risk was restricted in the latter half of 2008 and during the three months ended March 31, 2009, by the limited availability of willing counterparties to enter into forward arrangements.

Net gain on mortgage loans was $193 million for three months ended March 31, 2009, compared to a loss of $748 million for the three months ended March 31, 2008. The improvement in 2009 was primarily due to significant unfavorable valuation adjustments recorded in 2008 on our mortgage loans held-for-sale and commitments, primarily in the United Kingdom and continental Europe, as well as on our mortgage loans held-for-sale in our purchased distressed asset portfolio.

Gain on extinguishment of debt totaled $900 million for the three months ended March 31, 2009, compared to $480 million for the same period in 2008. The gains recognized during the first quarter of 2009 resulted from the extinguishment of $831 million of ResCap debt that was delivered as partial consideration of 100% of ResCap s interest in IB Finance, the parent company of GMAC Bank, and GMAC s forgiveness of $519 million of ResCap debt on March 31, 2009, with the intent of contributing capital into ResCap. The result of these two transactions produced gains of $506 million and $390 million, respectively. During the same period in 2008, ResCap recognized gains on extinguishment of debt of $480 million resulting from our contribution of $1.2 billion face amount of ResCap notes that had been purchased previously in open-market repurchase transactions.

Other income, net of losses, was a loss of $113 million for the three months ended March 31, 2009, compared to a loss of $585 million for the same period in 2008. The favorability was largely driven by decreased losses on investment securities. The investment loss was $12 million for the three months ended March 31, 2009, compared to a loss of $444 million for the same period of 2008. The favorable variance was primarily due to the significant decline in the fair value of residual interests during the first quarter of 2008 as a result of increased credit losses, rating agency downgrades, declines in the value of underlying collateral, market illiquidity, and changes in discount rate assumptions.

The provision for loan losses increased to $650 million in the three months ended March 31, 2009, compared to $300 million for the three months ended March 31, 2008. The provision increased primarily due to increases in provision on the GMAC Bank loan portfolio and the loan portfolios in the United Kingdom and continental Europe as a result of increased delinquencies and higher severity and frequency assumptions. In addition, the increase in provision expense in 2009 resulted from additional specific reserves recorded against a number of distressed loans within our real estate lending portfolio as a result of the continued decline in the homebuilding industry.

Noninterest expense increased 5% for the three months ended March 31, 2009, compared to the same period in 2008. The increase resulted primarily from an increase in our representation and warranty reserves for loans previously sold due to higher repurchase activity and severity assumptions on both conforming and nonconforming products. In addition, we experienced an increase in our captive reinsurance reserve resulting from anticipated mortgage insurance losses greater than the contractual amounts covered by the primary mortgage insurers. These adverse impacts were partially offset by decreases in compensation and benefits expense and other noninterest expenses due to the realization of restructuring efforts in late 2007 and 2008 and lower overall business activities.

The income tax benefit increased $72 million for the three months ended March 31, 2009, compared the same period in 2008. The increase in income tax benefit was primarily due to the losses realized in our domestic C corporation entities, GMAC Bank and CapRe of Vermont, for the three months ended March 31, 2009. Offsetting the increase in income tax benefit were full valuation allowances established on deferred tax assets in our foreign operations.

Mortgage Loan Production, Sales, and Servicing

Mortgage loan production was $13.4 billion for the three months ended March 31, 2009, compared to $20.9 billion for the same period in 2008. Mortgage operations domestic loan production decreased $5.5 billion, or 29%, for the three months ended March 31, 2009, compared to the same period in 2008. Mortgage operations international loan production decreased $2.0 billion, or 91%, for the three months ended March 31, 2009, compared to the same period in 2008. The decrease in our domestic loan production resulted from stricter mortgage underwriting guidelines in response to market conditions and our initiative taken in the third quarter of 2008 to only originate loans supported by government sponsored programs and other liquid exit channels. Furthermore, we announced the closure of our retail and wholesale channels in September 2008. Our international loan production decreased significantly as a result of our decision to cease loan origination activities in all international markets with the exception of certain mortgages in Canada.

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The following summarizes mortgage loan production for the periods shown.

($ in millions)	Three months ended March 31, 2009	2008
Consumer		
Principal amount by product type		
Prime conforming	**$ 8,506**	$ 15,437
Prime nonconforming	**18**	490
Prime second-lien		801
Government	**4,672**	1,977
Nonprime		3
Total U.S. production	**$ 13,196**	$ 18,708
International	**202**	2,191
Total	**$ 13,398**	$ 20,899
Principal amount by origination channel		
Retail and direct channels	**$ 1,530**	$ 5,099
Correspondent and broker channels	**11,666**	13,609
Total U.S. production	**$ 13,196**	$ 18,708
Number of loans *(in units)*		
Retail and direct channels	**7,796**	27,947
Correspondent and broker channels	**53,368**	62,314
Total U.S. production	**61,164**	90,261

The following table summarizes the primary domestic mortgage loan-servicing portfolio for which we hold the corresponding mortgage servicing rights.

	U.S. mortgage loan servicing portfolio			
	March 31, 2009		December 31, 2008	
($ in millions)	Number of loans	Dollar amount of loans	Number of loans	Dollar amount of loans
Prime conforming	**1,430,317**	**$ 217,548**	1,481,111	$ 225,141
Prime nonconforming	**217,537**	**64,420**	225,580	67,034
Prime second-lien	**542,421**	**23,532**	557,197	24,260
Government	**155,097**	**23,421**	138,802	20,323
Nonprime	**268,291**	**30,336**	258,026	28,275
Total U.S. primary servicing portfolio (a)	**2,613,663**	**$ 359,257**	2,660,716	$ 365,033

(a) Excludes loans for which we acted as a subservicer. Subserviced loans totaled 140,300 with an unpaid principal balance of $31.4 billion at March 31, 2009, and 149,750 with an unpaid balance of $33.1 billion at December 31, 2008.

Our international servicing portfolio consisted of $26.6 billion and $28.8 billion of mortgage loans as of March 31, 2009, and December 31, 2008, respectively.

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Allowance for Loan Losses

The following table summarizes the activity related to the allowance for loan losses.

	Three months ended March 31,					
	2009			2008		
($ in millions)	**Consumer**	**Commercial**	**Total**	Consumer	Commercial	Total
Balance at January 1,	**$ 1,142**	**$ 599**	**$ 1,741**	$ 832	$ 484	$ 1,316
Provision for loan losses	**505**	**145**	**650**	282	18	300
Charge-offs						
Domestic	**(170)**	**(156)**	**(326)**	(147)	(99)	(246)
Foreign	**(7)**	**(1)**	**(8)**	(7)		(7)
Total charge-offs	**(177)**	**(157)**	**(334)**	(154)	(99)	(253)
Recoveries						
Domestic	**8**	**1**	**9**	8	1	9
Foreign						
Total recoveries	**8**	**1**	**9**	8	1	9
Reduction of allowance due to fair value option election (a)				(489)		(489)
Impacts of foreign currency translation	**(16)**	**(1)**	**(17)**	6		6
Balance at March 31,	**$ 1,462**	**$ 587**	**$ 2,049**	$ 485	$ 404	$ 889
Allowance as a percentage of total (b)	**6.16% (c)**	**14.47%**	**7.37%**	1.59% (d)	5.76%	2.37%

(a) Represents the reduction of allowance as a result of fair value option election made under SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Refer to Note 15 to the Condensed Consolidated Financial Statements for additional information.
(b) Represents the related allowance for loan losses as a percentage of total on-balance sheet residential mortgage loans.
(c) As of March 31, 2009, $8.3 billion of the unpaid principal balance includes loans held at fair value for $1.7 billion under SFAS 159 with no related allowance for loan losses. These loans have been excluded from the calculation.
(d) As of March 31, 2008, $3.9 billion are loans held at fair value with no related allowance for loan loss. The loans held at fair value have been excluded from the calculation.

As a direct result of increased delinquencies and higher severity and frequency assumptions, we increased our consumer allowance coverage from 1.59% as of March 31, 2008, to 6.16% as of March 31, 2009. These allowance coverage percentages are based upon the allowance for loan losses related to mortgage loans held-for-investment excluding those loans held at fair value, as a percentage of the unpaid principal balance, net of premiums and discounts. We have reduced our mortgage loans held-for-investment portfolio primarily through reduced loan production as a result of the continued downward trend in the domestic mortgage origination market due to market conditions, tighter credit standards, asset sales, and continued portfolio run-off. The deterioration of the domestic and international housing markets has continued into the three-month period ending March 31, 2009. Our international operations have been primarily impacted in the United Kingdom and continental Europe with continued delinquency rate increases, while home prices continue to decline.

We increased our commercial allowance coverage from 5.76% as of March 31, 2008, to 14.47% as of March 31, 2009. The significant increase was primarily driven by specific provisions recognized against a number of distressed loans in our construction-lending portfolio due to continued deteriorating market conditions.

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The following table summarizes the allowance for loan losses by type.

	March 31, 2009			March 31, 2008		
($ in millions)	Allowance for loan losses	Allowance as a % of total asset class (a)	Allowance as a % of the total allowance	Allowance for loan losses	Allowance as a % of the total asset class (a)	Allowance as a % of the total allowance
Consumer						
Domestic						
Prime conforming	**$ 39**	**0.16**	**1.90**	$ 9	0.03	1.01
Prime nonconforming	**414**	**1.75**	**20.20**	86	0.28	9.67
Prime second-lien	**238**	**1.00**	**11.62**	88	0.29	9.90
Government	**3**	**0.01**	**0.15**	2	0.01	0.23
Nonprime	**261**	**1.10**	**12.74**	218	0.71	24.52
Foreign	**507**	**2.14**	**24.74**	82	0.27	9.23
Total consumer held-for-investment	**$ 1,462**	**6.16 (b)**	**71.35**	$ 485	1.59 (c)	54.56
Commercial lending receivables						
Domestic						
Warehouse	**$ 10**	**0.25**	**0.49**	$ 22	0.31	2.47
Construction	**524**	**12.91**	**25.57**	346	4.94	38.92
Commercial business				20	0.29	2.25
Other				1	0.01	0.11
Foreign	**53**	**1.31**	**2.59**	15	0.21	1.69
Total commercial lending receivables	**$ 587**	**14.47**	**28.65**	$ 404	5.76	45.44
Total allowance for loan losses	**$ 2,049**	**7.37**	**100.00**	$ 889	2.37	100.00

(a) Represents the related allowance for loan losses as a percentage of total on-balance sheet residential mortgage loans or commercial lending receivables.
(b) As of March 31, 2009, $8.3 billion of the unpaid principal balance includes loans held at fair value for $1.7 billion under SFAS 159 with no related allowance for loan loss. These loans have been excluded from the calculation.
(c) As of March 31, 2008, $3.9 billion are loans held at fair value with no related allowance for loan loss. The loans held at fair value have been excluded from the calculation.

Increased foreclosures, home price depreciation, and other market factors have driven increases in frequency and severity of loss. Our net charge-offs of mortgage loans held-for-investment totaled $169 million for the three months ended March 31, 2009, compared to $146 million for the same period in 2008. Annualized net charge-offs represent 2.1% of the total mortgage loans held-for-investment unpaid principal balance at March 31, 2009, compared to 1.4% as of March 31, 2008. Our net charge-offs of lending receivables totaled $156 million for the three months ended March 31, 2009, compared to $98 million for the same period in 2008. Annualized net charge-offs of commercial lending receivables represented 15.4% and 5.6% as of March 31, 2009 and 2008, respectively.

The following table summarizes the net charge-off information.

	Three months ended March 31,	
($ in millions)	**2009**	2008
Consumer		
Prime conforming	**$ (4)**	$ (4)

Prime nonconforming	**(31)**	(14)
Prime second-lien	**(84)**	(16)
Government	**(3)**	
Nonprime	**(47)**	(112)
Commercial		
Warehouse	**(9)**	(15)
Construction	**(147)**	(83)
Total net charge-offs	**$ (325)**	$ (244)

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Nonperforming Assets

The following table summarizes the nonperforming assets in our on-balance sheet held-for-sale and held-for-investment residential mortgage loan portfolios for each of the periods presented. Nonperforming assets are nonaccrual loans, foreclosed assets, and restructured loans. Mortgage loans and lending receivables are generally placed on nonaccrual status when they are 60 days and 90 days past due, respectively, or when the timely collection of the principal of the loan, in whole or in part, is doubtful. Management s classification of a loan as nonaccrual does not necessarily suggest that the principal of the loan is uncollectible in whole or in part. In certain cases, borrowers make payments to bring their loans contractually current; in all cases, mortgage loans are collateralized by residential real estate. As a result, our experience has been that any amount of ultimate loss for mortgage loans other than second-lien loans is substantially less than the unpaid balance of the nonperforming loans.

($ in millions)	**March 31, 2009**	December 31, 2008	March 31, 2008
Nonaccrual loans			
Mortgage loans			
Prime conforming	**$ 181**	$ 152	$ 42
Prime nonconforming	**2,247**	1,842	1,240
Prime second-lien	**520**	452	163
Government	**79**	66	25
Nonprime (a)	**3,335**	3,239	4,126
Lending receivables			
Construction (b)	**1,038**	1,273	618
Warehouse	**66**	75	37
Commercial real estate			9
Commercial business	**56**		
Total nonaccrual assets	**7,522**	7,099	6,260
Restructured loans	**621**	107	43
Foreclosed assets	**573**	703	1,103
Total nonperforming assets	**$ 8,716**	$ 7,909	$ 7,406
Total nonperforming assets as a percentage of total Mortgage operations assets	**17.6%**	16.6%	10.0%

(a) Includes loans that were purchased distressed and already in nonaccrual status of $334 million as of March 31, 2009; $296 million as of December 31, 2008; and $171 million as of March 31, 2008, respectively. In addition, includes nonaccrual restructured loans that are not included in restructured loans of $546 million as of March 31, 2009; $218 million as of December 31, 2008, and $24 million as of March 31, 2008.

(b) Includes nonaccrual restructured loans that are not included in restructured loans of $33 million as of March 31, 2009; $26 million as of December 31, 2008; and $102 million as of March 31, 2008.

Delinquency and nonaccrual levels related to mortgage loans held-for-investment increased throughout the three months ended March 31, 2009. Mortgage loans held-for-investment past due 60 days or more increased to 20.4% of the total unpaid principal balance as of March 31, 2009, compared to 18.4% at December 31, 2008, and 14.2% at March 31, 2008. Nonaccrual loans increased to 26.6% of the mortgage loans held-for-investment portfolio as of March 31, 2009, compared to 23.2% and 16.5% as of December 31, 2008, and March 31, 2008, respectively. The increase primarily reflects delinquencies that continue to increase across the first mortgage and home equity portfolios within the GMAC Bank loan portfolio.

Nonaccrual commercial lending receivables were 33.4% of the commercial lending receivables portfolio as of March 31, 2009, compared to 42.4% and 10.0% as of December 31, 2008, and March 31, 2008, respectively. The elevated level of nonaccrual loans was primarily related to distressed first lien construction loans in our commercial real estate portfolio as a result of the continued decline in the homebuilding industry.

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The following table summarizes the delinquency information for our mortgage loans held-for-investment portfolio.

	March 31, 2009		December 31, 2008		March 31, 2008	
($ in millions)	**Amount**	**% of total**	Amount	% of total	Amount	% of total
Current	**$ 24,646**	**76**	$ 25,728	78	$ 34,080	82
Past due						
30 to 59 days	**1,221**	**4**	1,375	4	1,587	4
60 to 89 days	**802**	**2**	838	3	798	2
90 days or more	**2,543**	**8**	2,363	7	2,097	5
Foreclosures pending	**2,557**	**8**	2,116	6	2,278	5
Bankruptcies	**737**	**2**	783	2	742	2
Total unpaid principal balance	**32,506**	**100**	33,203	100	41,582	100
Net (discounts) premiums	**(478)**		(486)		(687)	
SFAS 159 fair value adjustment	**(6,629)**		(6,829)		(6,409)	
Allowance for loan losses	**(1,462)**		(1,142)		(485)	
Total	**$ 23,937**		$ 24,746		$ 34,001	

As of March 31, 2009, we continue to hold mortgage loans that have features that expose us to credit risk and thereby could result in a concentration of credit risk. We currently originate only prime conforming and government mortgages in the United States and high-quality insured mortgages in Canada, which reduces our overall exposure to products that increase our credit risk. These loan products include high loan-to-value mortgage loans, payment option adjustable rate mortgage loans, interest-only mortgage loans, and teaser rate mortgages. Total loan production and combined exposure related to these products recorded in finance receivables and loans and loans held-for-sale are summarized as follows:

	Loan production for the three months ended March 31,	
($ in millions)	**2009**	2008
Interest-only mortgage loans	**$ 11**	$ 1,784
Payment option adjustable rate mortgage loans		
High loan-to-value (greater than 100%) mortgage loans	**8**	385
Below market initial rate mortgages		
Total	**$ 19**	$ 2,169

	Unpaid principal balance	
($ in millions)	**March 31, 2009**	December 31, 2008
Interest-only mortgage loans	**$ 10,122**	$ 10,459
Payment option adjustable rate mortgage loans	**300**	307
High loan-to-value (greater than 100%) mortgage loans	**3,120**	3,833
Below market initial rate mortgages	**938**	801
Total	**$ 14,480**	$ 15,400

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Insurance Operations

Results of Operations

The following table summarizes the operating results of our Insurance operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other operating segments.

	Three months ended March 31,		Favorable/ (unfavorable)
($ in millions)	**2009**	2008	**% change**
Revenue			
Insurance premiums and service revenue earned	**$ 852**	$ 1,097	**(22)**
Investment (loss) income	**20**	96	**(79)**
Other income	**43**	54	**(20)**
Total insurance premiums and other income	**915**	1,247	**(27)**
Expense			
Insurance losses and loss adjustment expenses	**488**	627	**22**
Acquisition and underwriting expense	**368**	454	**19**
Total expense	**856**	1,081	**21**
Income before income tax expense	**59**	166	**(64)**
Income tax expense	**9**	34	**74**
Net income	**$ 50**	$ 132	**(62)**
Total assets	**$ 12,156**	$ 13,730	**(11)**
Insurance premiums and service revenue written	**$ 722**	$ 1,133	**(36)**
Combined ratio (a)	**95.9%**	93.8%	

(a) Management uses combined ratio as a primary measure of underwriting profitability with its components measured using accounting principles generally accepted in the United States of America. Underwriting profitability is indicated by a combined ratio under 100% and is calculated as the sum of all incurred losses and expenses (excluding interest and income tax expense) divided by the total of premiums and service revenues earned and other income.

Net income from Insurance operations totaled $50 million for the three months ended March 31, 2009, compared to $132 million for the three months ended March 31, 2008. Net income for the three months ended March 31, 2009, decreased compared to the same period in 2008 primarily due to higher realized investment losses, which were driven by other-than-temporary impairments recognized on certain investment securities and unfavorable investment market volatility. In addition, we experienced unfavorable underwriting results, primarily the result of decreases in premiums earned.

Insurance premiums and service revenue earned totaled $852 million for the three months ended March 31, 2009, compared to $1.1 billion for the same period in 2008. Insurance premiums and service revenue earned was adversely affected by a decrease in U.S. personal auto policies in force and lower volume in dealership-related products due to sharp declines in vehicle sales, challenging domestic pricing conditions, the sale of our U.S. reinsurance managing general agency in November 2008, and the U.S. dollar strengthening against foreign currencies in our international operations. The business that our U.S. reinsurance agency underwrote was ceded to the purchasing entity.

The combination of investment and other income decreased 58% for the three months ended March 31, 2009, compared to the same period in 2008. The decrease in investment income was primarily related to other-than-temporary impairments of $45 million recognized on certain investment securities due to continued unfavorable market conditions. Additionally, decreases were experienced as a result of a reduction in the size of the investment portfolio, primarily due to the sale of our U.S. reinsurance business and lower asset yields on reinvestment. The value of the investment portfolio was $5.0 billion and $7.2 billion at March 31, 2009 and 2008, respectively.

Insurance losses and loss adjustment expenses totaled $488 million for the three months ended March 31, 2009, compared to $627 million for the three months ended March 31, 2008. The decrease was primarily driven by the sale of our U.S. reinsurance agency, lower loss experience in our U.S. vehicle service contract and personal insurance businesses as a result of lower volumes, and the U.S. dollar strengthening against foreign currencies within our international operations.

Acquisition and underwriting expense decreased 19% for the three months ended March 31, 2009, compared to the same period in 2008. The decrease was primarily due to the sale of our U.S. reinsurance business and lower volumes of U.S. business.

Corporate and Other Operations

Corporate and Other operations experienced a net loss of $825 million for the three months ended March 31, 2009, compared to a net loss of $120 million for the three months ended March 31, 2008. The decrease for the period was primarily due to the intercompany elimination of gains realized from the extinguishment of ResCap debt, an increase in interest expense due to the amortization of the discount associated with the December 2008 bond exchange, unfavorable net derivative activity, increased bank facility fees, and higher IT project costs. The three months ended March 31, 2009, included intercompany eliminations of $896 million related to the extinguishment of ResCap debt. These gains recognized by ResCap during the three months ended March 31, 2009, were ultimately eliminated in the Corporate segment. The elimination occurred during the current period as the debt was contributed to ResCap and recognized as a gain by ResCap during the three months ended March 31, 2009. GMAC repurchased the debt in the open market at a discount or through our private debt exchange and cash tender offers in prior periods. The decrease was partially offset by a $634 million gain related to privately negotiated transactions that extinguished certain GMAC debt, increased corporate overhead allocations, and increased equity investment income. We experienced equity investment net income of $4 million for the three months ended March 31, 2009, compared to net loss of $38 million for the same period in 2008.

Corporate and Other operations also include the results of our Commercial Finance Group. Our Commercial Finance Group experienced a net loss of $98 million for the three months ended March 31, 2009, compared to net income of $9 million for the three months ended March 31, 2008. Net income at our Commercial Finance Group decreased primarily as a result of an $87 million fair value impairment on the assets of its resort finance business. Additionally, our Commercial Finance Group was adversely impacted by lower fee income due to lower factored sales volume, lower asset levels, and fewer originations.

Liquidity Management, Funding, and Regulatory Capital

Overview

Liquidity management involves forecasting funding requirements driven by asset growth or liability maturities. The goal of liquidity management is to ensure we maintain adequate funds to meet changes in loan and lease demand, debt maturities, and unexpected deposit withdrawals. Our primary funding objective is to ensure we maintain stable and diverse access to liquidity throughout all market cycles, including periods of financial distress. Sources of liquidity include both retail and brokered deposits, and both secured and unsecured market-based funding.

Liquidity risk arises from the failure to recognize or address changes in market conditions impacting both asset and liability flows. Liquidity risk management is critical to the viability of financial institutions. Since the summer of 2007, markets have remained challenging and the inability to appropriately manage liquidity needs and contingent funding exposures led to the insolvency and consolidation of several financial institutions.

ALCO, the Asset-Liability Committee, is responsible for monitoring liquidity on an ongoing basis and delegates the planning and execution of liquidity management strategies to Corporate Treasury. Liquidity risk is managed at both the business segment level and at a consolidated level. Each principal operating segment prepares periodic forecasts depicting anticipated funding needs and sources of funds with oversight and monitoring by Corporate Treasury. Corporate Treasury manages liquidity under baseline projected economic scenarios as well as more severe economic stressed environments.

Funding Strategy

Our liquidity and ongoing profitability are largely dependent upon our timely access to capital and the costs associated with raising funds in different segments of the capital markets.

Historically, our funding strategy has focused on the development of diversified funding sources across a global investor base. These historic funding sources have included the following:

Public unsecured debt capital markets

Asset backed securitizations, both public and private

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Whole-loan sales

Domestic and international committed and uncommitted bank lines

Brokered certificates of deposits and retail deposits

Throughout 2008 and thus far in 2009, the global credit markets have experienced extraordinary levels of volatility and stress. As a result, access by market participants to the debt and consumer loan securitization markets has been significantly constrained and credit spreads have widened sharply increasing borrowing costs. In addition, although several of our committed facilities were renewed in 2008, some facilities were not renewed placing additional pressure on our liquidity position. In today s market environment, we are managing our liquidity using the following practices:

Existing secured funding facilities Lack of access to the public markets in the current credit environment has resulted in an increased level of utilization across our secured facilities. We took aggressive actions throughout 2008 to restructure existing programs including establishing a new globally syndicated $11.4 billion senior secured revolving credit facility with a three-year maturity. In addition, we maintain access to our committed automotive whole-loan forward flow agreements beyond 2009.

GMAC Bank deposits GMAC Bank has access to funding through Federal Home Loan Bank (FHLB) advances, brokered certificates of deposit and retail deposits. GMAC Bank continues to grow and is becoming a more prominent part of our funding strategy. The deposit base has grown from $19.3 billion at December 31, 2008, to $22.5 billion at March 31, 2009. On December 24, 2008, the Board of Governors of the Federal Reserve System approved our application to convert to a bank holding company under the BHC Act. This allowed us to convert GMAC Bank to a Utah state-chartered commercial nonmember bank giving us greater flexibility to develop more stable sources of funding. We have already begun to embark on initiatives to grow our consumer deposit-taking capabilities, including the launch of a redesigned online portal.

Participation in Governmental Funding Programs In response to the stress in the financial markets, numerous government programs have been established aimed at improving the liquidity position of U.S. financial services firms.

Federal Reserve s Discount Window and Term Auction Facility (TAF) On September 11, 2008, the automotive division of GMAC Bank was granted access to the Federal Reserve s Discount Window and Term Auction Facility (TAF). The Discount Window is the primary credit facility under which the Federal Reserve extends collateralized loans to depository institutions at terms from overnight up to ninety days. The TAF program auctions a pre-announced quantity of collateralized credit starting with a minimum bid for term funds of 28- or 84-day maturity. The automotive division of GMAC Bank has pledged $4.6 billion of automotive loans and leasing financings to participate in the Discount Window and TAF program at varying collateral requirements. At March 31, 2009, GMAC Bank had no outstanding borrowings under these programs with unused capacity of $3.7 billion.

Federal Reserve s Commercial Paper Funding Facility (CPFF) In October 2008, the Federal Reserve Board established the Commercial Paper Funding Facility (CPFF) to provide a liquidity backstop to U.S. issuers of commercial paper. As of March 31, 2009, there was approximately $6.1 billion of asset-backed commercial paper outstanding under this program. For further discussion, refer to Syndicated Facilities under the Secured Funding Facilities section of this Liquidity Management, Funding, and Regulatory Capital MD&A.

Troubled Asset Relief Program (TARP) On December 29, 2008, we sold $5.0 billion of GMAC preferred membership interests and warrants, which were immediately exercised, to the U.S. Department of the Treasury as a participant in the Automotive Financing Program created under the TARP.

Temporary Liquidity Guarantee Program (TLGP) We are currently working to secure additional liquidity through the Federal Deposit Insurance Corporation s (FDIC) three-year Temporary Liquidity Guarantee Program (TLGP). If approved, this would allow us to issue low-cost unsecured corporate debt that is guaranteed by the FDIC.

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Term Asset-Backed Securities Loan Facility (TALF) Earlier this year, the Federal Reserve Board commenced a program designed to support the issuance of asset-backed securities collateralized by various types of assets including automotive consumer and commercial loans. Several issuers of asset-backed securities issued debt under this program in the first quarter 2009. We are currently evaluating our ability to use this program and to what extent.

The actions above and participation in the above programs have allowed us to maintain sufficient liquidity to meet all maturing unsecured debt obligations as they come due without accessing the unsecured markets. However, we have significant unsecured debt obligations coming due in the next few years. Our inability to renew the remaining loans and facilities as they mature could have a further negative impact on our liquidity position.

Our wholly owned subsidiary, ResCap, also actively manages its liquidity and capital positions and is continually working on initiatives to address its debt covenant compliance and liquidity needs, including debt maturing in the next twelve months. Throughout 2008, we took actions intended to improve liquidity and support the capital structure of ResCap. We have previously disclosed that if ResCap were to need additional support, we would provide that support to the extent it is in the best interests of our stakeholders. However, there can be no assurances that GMAC or its affiliates will continue such actions in the future.

Cash Flows

Net cash used in operating activities was $1.7 billion for the three months ended March 31, 2009, compared to net cash provided by operating activities of $1.1 billion for the same period in 2008. Net cash used by operating activities primarily included cash used for the origination and purchase of certain mortgage and automotive loans held-for-sale and the cash proceeds from the sales of and principal repayments of such loans. Our ability to originate and sell mortgage loans at historical volumes has been hindered by the continued depressed U.S. housing market and certain foreign mortgage and capital markets. During the three months ended March 31, 2009, outflows from originations and purchases of new loans exceeded cash inflows from collections and sales of mortgage and automotive loans held-for-sale due largely to an increase in refinancing activity in response to actions taken by the Federal Reserve to cut interest rates during the three months ended December 31, 2008.

Net cash provided by investing activities was $6.4 billion for the three months ended March 31, 2009, compared to cash used of $2.8 billion for the same period in 2008. Considering the impact of sales activity, net cash flows associated with finance receivables and loans increased $5.6 billion during the three months ended March 31, 2009, compared to the same period a year ago. Cash flows related to operating lease activities also increased $4.1 billion, compared to the same period in 2008. Repayments of existing operating leases exceeded purchases of new leases because of the continued credit market dislocation and increased lease pricing initiated in late 2008. These increases were partially offset by a decrease in cash proceeds from the sales and maturities of available-for-sale investment securities, net of purchases, of $1.8 billion during the three months ended March 31, 2009, compared to the same period in 2008.

Net cash used in financing activities for the three months ended March 31, 2009, totaled $7.1 billion, compared to $1.0 billion for the same period in 2008. The increase was primarily due to an increase in the repayment of long-term debt of approximately $3.5 billion, compared to the same period in 2008. Included in the repayment of long-term debt during the three months ended March 31, 2009, was approximately $0.5 billion of cash outflows to repurchase certain outstanding debt in a private repurchase transaction. Proceeds from the issuance of long-term debt decreased $6.4 billion during the three months ended March 31, 2009, compared to the same period in 2008, reflecting lower required funding levels associated with declining asset balances. These decreases in cash were partially offset by a $1.2 billion increase in cash associated with the issuance of new interests to members.

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Funding Sources

The following table summarizes debt and other sources of funding by source and the amount outstanding under each category for the periods shown.

	Outstanding	
($ in millions)	**March 31, 2009**	December 31, 2008
Commercial paper	**$ 63**	$ 146
Institutional term debt	**28,332**	29,994
Retail debt programs	**16,577**	18,121
Secured financings (a)	**64,186**	73,108
Bank loans and other	**3,517**	4,227
Total debt (b)	**$ 112,675**	$ 125,596
Bank deposits (c)	**$ 21,235**	$ 18,311
Off-balance sheet securitizations		
Retail finance receivables	**$ 10,501**	$ 11,887
Wholesale loans	**6,888**	10,573
Mortgage loans	**119,608**	125,926
Total off-balance sheet securitizations	**$ 136,997**	$ 148,386

(a) Includes securitization transactions that are accounted for on-balance sheet as secured financings totaling $47,191 million and $54,876 million at March 31, 2009, and December 31, 2008, respectively.
(b) Excludes fair value adjustment as described in Note 15 to our Condensed Consolidated Financial Statements.
(c) Includes consumer and commercial bank deposits and dealer wholesale deposits.

Short-term Debt

We obtain short-term funding from the sale of floating-rate demand notes under our Demand Notes program. These notes can be redeemed at any time at the option of the holder without restriction. Our domestic and international unsecured and secured commercial paper programs also provide short-term funding, as do short-term bank loans. Renewing our short-term debt maturities, particularly unsecured debt, including Demand Notes, continues to be challenging due to the heightened credit market turmoil and our credit-rating profile. Demand Notes outstanding remained at the December 31, 2008, level of $1.3 billion at March 31, 2009. As of March 31, 2009, we had $8.0 billion in short-term debt outstanding, a decline of $2.4 billion from December 31, 2008. Refer to Note 9 to our Condensed Consolidated Financial Statements for additional information about our outstanding short-term debt.

Long-term Debt

Historically, the unsecured debt markets were a key source of long-term financing for us. However, given our current ratings profile and market environment, we have been unable to access the unsecured debt markets. During the three months ended March 31, 2009, we did not issue unsecured long-term debt in the capital markets.

The following table presents the scheduled maturity of unsecured long-term debt at March 31, 2009, assuming that no early redemptions occur.

Year ended December 31, *($ in millions)*	**Global Automotive Finance operations (a)**	**Mortgage operations (b)**	**Total**
2009	$ 9,501	$ 523	$ 10,024
2010	5,626	1,255	6,881

2011		9,649		208	9,857
2012		4,695		337	5,032
2013		1,364		536	1,900
2014 and thereafter		15,517		214	15,731
Original issued discount (c)		(5,210)			(5,210)
Total unsecured long-term debt	$	41,142	$	3,073	$ 44,215

(a) Consists of debt we or our subsidiaries incur to finance our Global Automotive Finance operations.

(b) Excludes Mortgage operations unsecured long-term debt held by GMAC.

(c) Scheduled amortization of original issue discount is as follows: $963 million in 2009; $1,241 million in 2010; $1,012 million in 2011; $334 million in 2012; $248 million in 2013; and $1,412 million in 2014 and thereafter.

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Secured Financings and Off-balance Sheet Securitizations

For the first three months of 2009, the majority of the volume of our North American Automotive Finance operations was funded through secured funding arrangements or automotive whole-loan sales. During the three months ended March 31, 2009, our North American Automotive Finance operations executed approximately $1.0 billion in automotive whole-loan sales and had no off-balance sheet securitizations. In addition, our North American Automotive Finance operations executed approximately $882 million in secured funding during the quarter. Our International Automotive Finance operations funded approximately 46% of its operations through securitizations and other forms of secured funding.

Mortgage operations utilize committed and uncommitted secured facilities to fund inventories of mortgage loans held-for-investment, mortgage loans held-for-sale, lending receivables, mortgage servicing cash flows, and securities. These facilities provide funding for residential mortgage loans prior to their subsequent sale or securitization. Although unused capacity exists under the secured committed facilities, use of such capacity is conditioned upon certain collateral eligibility requirements, and, as a result, access to capacity under these facilities may be limited. The unused capacity on the committed secured facilities can be utilized only upon the pledge of eligible assets that Mortgage operations may not currently have available or the capacity can provide funding for future asset acquisitions. Mortgage operations also utilize off-balance sheet financings. Mortgage operations off-balance sheet financings outstanding were $120 billion as of March 31, 2009, and $126 billion as of December 31, 2008. A significant portion of off-balance sheet financing relates to securitizations issued in off-balance sheet trusts.

As a part of Mortgage operations historical capital markets activity, predominantly in international operations, several of our securitizations have certain servicer obligations contingent on actions by bondholders. These servicer obligations exist in Dutch, German, and Australian securitization structures. Certain of these obligations provide the investors of the trust with the ability to put back these securities to the trust at a specified date in the future at par less losses previously allocated to the bond classes. ResCap, as servicer of the trust, is obligated to advance the funds required to redeem bondholders. ResCap has the option to purchase loans from the trust at their par value, the proceeds of which then can be used to offset the trust s obligation to repay the servicer. The specific dates that these options can be exercised range from seven to twelve years from the securitization date. The earliest exercise date for these options is the third quarter of 2009.

The total estimated amount of Dutch and German bonds subject to these servicer obligations is approximately $7.9 billion beginning in 2009 through 2019. The estimated obligation considers contractual amortization, prepayments, and defaults among other management assumptions. The portion that is exercisable prior to December 31, 2009 and 2010, is 1.1% of the total and 4.7% of the total, respectively. Approximately 72.6% of the total estimated bonds are eligible for this servicer obligation beginning in 2013 and after.

The total estimated amount of Australian bonds subject to these servicer obligations is approximately $114.3 million all of which are exercisable in 2011.

ResCap currently holds the residual interest (first loss bond) on all of these securitizations. To the extent that the potential bonds are put back to the SPE and the loans are repurchased, ResCap has recognized the estimated future credit losses on the underlying mortgage loans in the fair market value of the retained residuals it currently holds on its balance sheet. To the extent that losses are expected to arise from factors such as liquidity or market risk of the loans that may be purchased pursuant to its servicer obligation (i.e., losses beyond the credit losses already reflected in the residual), we estimate and record this incremental loss when the likelihood of bondholder exercise is foreseeable and the incremental loss can be reasonably estimated. During the three months ended March 31, 2009, our Mortgage operations recorded a $8.3 million incremental loss related to these servicer obligations.

As of March 31, 2009, the liabilities related to these servicer obligations, after considering the valuation of residual interests, were immaterial.

Bank Deposits

We accept commercial and consumer deposits through GMAC Bank in the United States. As of March 31, 2009, GMAC Bank had approximately $22.5 billion of deposits, compared to $19.3 billion as of December 31, 2008. Deposits are an efficient and cost-effective source of funding for us, and, as a result, we have been offering competitive rates in an effort to increase our deposit levels. We also have banking operations in Argentina, Brazil, Colombia, France, Germany, and Poland that fund automotive assets.

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Funding Facilities

The following tables highlight credit capacity under our secured and unsecured funding facilities as of March 31, 2009, and December 31, 2008. We utilize both committed and uncommitted credit facilities.

	Total capacity		**Current capacity (a)**		**Potential capacity (b)**		**Outstanding**	
($ in billions)	**Mar 31, 2009**	Dec 31, 2008	**Mar 31, 2009**	Dec 31, 2008	**Mar 31, 2009**	Dec 31, 2008	**Mar 31, 2009**	Dec 31, 2008
Committed unsecured								
Global Automotive Finance operations	**$ 1.6**	$ 1.7	**$ 0.2**	$ 0.2	**$**	$	**$ 1.4**	$ 1.5
Committed secured								
Global Automotive Finance operations (c)	**47.5**	56.2	**3.0**	0.7	**12.4**	15.6	**32.1**	39.9
Mortgage operations	**3.4**	5.4			**0.5**	2.3	**2.9**	3.1
Other	**3.1**	2.9			**1.4**	1.0	**1.7**	1.9
Total committed facilities	**55.6**	66.2	**3.2**	0.9	**14.3**	18.9	**38.1**	46.4
Uncommitted unsecured								
Global Automotive Finance operations	**1.6**	2.1	**0.2**	0.2			**1.4**	1.9
Mortgage operations		0.1		0.1				
Other								
Uncommitted secured								
Global Automotive Finance operations	**4.0**	4.4	**3.7**	4.1			**0.3**	0.3
Mortgage operations	**9.7**	9.5	**0.5**	0.2			**9.2**	9.3
Other		0.1						0.1
Total uncommitted facilities	**15.3**	16.2	**4.4**	4.6			**10.9**	11.6
Total	**$ 70.9**	$ 82.4	**$ 7.6**	$ 5.5	**$ 14.3**	$ 18.9	**$ 49.0**	$ 58.0
Whole-loan forward flow agreements (d)	**$ 15.9**	$ 17.8	**$**	$	**$ 15.9**	$ 17.8	**$**	$
Total commitments	**$ 86.8**	$ 100.2	**$ 7.6**	$ 5.5	**$ 30.2**	$ 36.7	**$ 49.0**	$ 58.0

(a) Funding is generally available upon request as excess collateral resides in certain facilities.
(b) Funding is generally available to the extent incremental collateral is contributed to the facilities.
(c) Potential capacity includes undrawn credit commitments that serve as backup liquidity to support our asset-backed commercial paper program (NCAT). There was $6.4 billion and $9.0 billion of potential capacity that was supporting $6.1 billion and $8.0 billion of outstanding NCAT commercial paper as of March 31, 2009, and December 31, 2008, respectively. The NCAT commercial paper outstanding is not included in our Condensed Consolidated Balance Sheets. For further discussion of the NCAT facility refer to Syndicated Facilities under the Secured Funding Facilities section of this Liquidity Management, Funding, and Regulatory Capital MD&A.
(d) Represents commitments of financial institutions to purchase U.S. automotive retail assets.

Unsecured Funding Facilities

The following table summarizes our unsecured committed capacity as of March 31, 2009, and December 31, 2008.

Unsecured committed facilities

	March 31, 2009		December 31, 2008		
($ in billions)	**Outstanding**	**Unused**	Outstanding	Unused	Total

		capacity	**Total capacity**		capacity	capacity
Global Automotive Finance operations						
North American operations						
Revolving credit facility multiyear	**$ 0.5**	**$**	**$ 0.5**	$ 0.5	$	$ 0.5
Bank lines	**0.4**		**0.4**	0.4		0.4
International operations						
Bank lines	**0.5**	**0.2**	**0.7**	0.6	0.2	0.8
Total Global Automotive Finance operations	**$ 1.4**	**$ 0.2**	**$ 1.6**	$ 1.5	$ 0.2	$ 1.7

Revolving credit facilities As of March 31, 2009, we maintained $486 million of commitments in our U.S. unsecured revolving credit facility maturing June 2012. This facility is fully drawn.

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Bank lines As of March 31, 2009, we maintained $431 million in committed unsecured bank facilities in Canada and $664 million in International operations, primarily in Europe. Half of the Canadian commitments expire in June 2009 while the remaining commitments mature in June 2012. Most of the bank lines funding International operations have maturity dates in 2009.

The following table summarizes our unsecured uncommitted capacity as of March 31, 2009, and December 31, 2008. The financial institutions providing the uncommitted facilities are not legally obligated to advance funds under them.

Unsecured uncommitted facilities

	March 31, 2009			December 31, 2008		
($ in billions)	**Outstanding**	**Unused capacity**	**Total capacity**	Outstanding	Unused capacity	Total capacity
Global Automotive Finance operations						
International operations						
Lines of credit Europe	**$ 0.8**	**$**	**$ 0.8**	$ 1.0	$ 0.1	$ 1.1
Lines of credit Latin America	**0.5**	**0.2**	**0.7**	0.8	0.1	0.9
Lines of credit Asia-Pacific	**0.1**		**0.1**	0.1		0.1
Total Global Automotive Finance operations	**1.4**	**0.2**	**1.6**	1.9	0.2	2.1
Mortgage operations						
GMAC Bank Fed Funds					0.1	0.1
Total	**$ 1.4**	**$ 0.2**	**$ 1.6**	$ 1.9	$ 0.3	$ 2.2

Global Automotive Finance lines of credit Our International operations utilize credit lines from local banks and local branches of multinational financial institutions. The lines generally have a documented credit limit to establish total capacity, but lenders are not obligated to fulfill loan requests if there is unutilized capacity. Also, lenders are not obligated to renew outstanding loans when they mature. The outstanding loans under these credit lines tend to be short-term in nature; therefore, they are renewed throughout the year. These credit lines are typically supported by a parent guarantee from GMAC LLC. As of March 31, 2009, our nonconsolidated Chinese affiliate (GMAC-SAIC Automotive Finance Company Limited) had $1.4 billion of bank line capacity and $0.9 billion outstanding, which is not included in the table above.

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Secured Funding Facilities

The following table shows the current capacity and potential capacity under our secured committed facilities as of March 31, 2009, and December 31, 2008. Current capacity represents funding capacity that is available upon request as excess collateral resides in certain facilities. The potential capacity on the committed secured facilities can be utilized only upon the pledge of available eligible assets.

	Secured committed facilities March 31, 2009				December 31, 2008			
($ in billions)	**Outstanding**	**Current capacity (a)**	**Potential capacity (b)**	**Total capacity**	Outstanding	Current capacity (a)	Potential capacity (b)	Total capacity
Global Automotive Finance operations								
North American operations								
Syndicated facilities (c)	**$ 9.0**	**$ 2.5**	**$ 10.3**	**$ 21.8**	$ 13.9	$ 0.6	$ 12.8	$ 27.3
Bilateral/multilateral bank facilities	**13.8**	**0.5**	**1.0**	**15.3**	15.6	0.1	1.5	17.2
International operations								
Bilateral/multilateral bank facilities	**9.3**		**1.1**	**10.4**	10.4		1.3	11.7
Total Global Automotive Finance operations	**32.1**	**3.0**	**12.4**	**47.5**	39.9	0.7	15.6	56.2
Mortgage operations								
Repurchase agreements	**0.3**		**0.2**	**0.5**	0.4		1.3	1.7
Facilities for:								
Construction-lending receivables	**0.4**			**0.4**	0.5			0.5
Mortgage servicing rights	**0.8**		**0.2**	**1.0**	0.5		0.9	1.4
Servicer advances	**0.7**			**0.7**	0.7			0.7
International mortgage loans	**0.4**		**0.1**	**0.5**	0.8			0.8
Other	**0.3**			**0.3**	0.2		0.1	0.3
Total Mortgage operations	**2.9**		**0.5**	**3.4**	3.1		2.3	5.4
Other								
Commercial Finance operations	**1.7**		**1.3**	**3.0**	1.9		0.9	2.8
Insurance operations			**0.1**	**0.1**			0.1	0.1
Total Other	**1.7**		**1.4**	**3.1**	1.9		1.0	2.9
Total	**$ 36.7**	**$ 3.0**	**$ 14.3**	**$ 54.0**	$ 44.9	$ 0.7	$ 18.9	$ 64.5
Whole-loan flow agreements	**$**	**$**	**$ 15.9**	**$ 15.9**	$	$	$ 17.8	$ 17.8
Total commitments	**$ 36.7**	**$ 3.0**	**$ 30.2**	**$ 69.9**	$ 44.9	$ 0.7	$ 36.7	$ 82.3

(a) Funding is generally available upon request as excess collateral resides in certain facilities.
(b) Funding is generally available to the extent incremental collateral is available and contributed to the facilities.
(c) Potential capacity includes undrawn credit commitments that serve as backup liquidity to support our asset-backed commercial paper program (NCAT). There was $6.4 billion and $9.0 billion of potential capacity that was supporting $6.1 billion and $8.0 billion of outstanding NCAT commercial paper as of March 31, 2009, and December 31, 2008, respectively. The NCAT commercial paper outstanding is not included in our Condensed Consolidated Balance Sheets. For further discussion of the NCAT facility refer to Syndicated facilities of this Liquidity Management, Funding, and Regulatory Capital MD&A.

Syndicated facilities These are facilities that include 10 or more banks in the syndicate group. The primary syndicated facilities include the following:

NCAT and TACN New Center Asset Trust (NCAT) is a special-purpose entity administered by us for the purpose of funding assets as part of our securitization funding programs. The purpose of this entity had been to fund assets primarily through the issuance of asset-backed commercial paper. The total capacity represents credit commitments that serve as backup liquidity to support the outstanding commercial paper. At March 31, 2009, NCAT had commercial paper outstanding of $6.1 billion, which is not included in our Condensed Consolidated Balance Sheet. As of

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March 31, 2009, most of NCAT s outstanding commercial paper was financed through the Federal Reserve s Commercial Paper Funding Facility (CPFF).

In 2008, we added a feature to this program that allowed us to transfer NCAT credit commitments to another secured facility, Total Asset Collateralized Notes LLC (TACN), which is bank funded. NCAT commitments of $1.0 billion were transferred to TACN. As of March 31, 2009, there was $489 million outstanding under TACN.

On November 25, 2008, certain asset-backed securities owned by NCAT were downgraded by Moody s and S&P. As a result of the downgrades, under the terms of NCAT s liquidity facility documents, a cure period was provided during which GMAC, as administrator of NCAT, could work with Moody s and S&P to take steps to secure a ratings upgrade for the downgraded securities. No such upgrade was achieved prior to the end of the cure period on January 23, 2009, and at that point an orderly wind-down of NCAT s operations began. During the wind-down phase NCAT can no longer purchase additional asset-backed securities or increase the principal amount of any revolving asset-backed securities it currently owns. In addition, NCAT s commercial paper has been downgraded below A-1/P-1 by Moody s and S&P, and, as a result, is no longer eligible for funding from CPFF. Most of the NCAT commercial paper outstanding as of March 31, 2009, matured in April 2009 and was not renewed. Therefore, the credit commitments that served as backup liquidity support were utilized to fund the commercial paper maturities. As of April 30, 2009, there was $5.7 billion outstanding against the $6.4 billion of credit commitments with only $9 million of commercial paper outstanding. The $6.4 billion of credit commitments expire in June 2009, but the lenders remain obligated to fund the underlying asset-backed securities beyond the expiration date. Securities backed by retail or lease assets will be funded by the lenders until the underlying assets fully amortize, while securities backed by dealer floorplan receivables will be paid down at different points in 2009 and thus will need to be refinanced during 2009. The underlying assets in TACN will be funded by the lenders until they fully amortize.

Since NCAT and TACN can no longer purchase additional asset-backed securities or increase the principal amount of any revolving asset-backed securities, we reduced the credit commitments underlying both facilities to align them with their respective funding requirements. On March 31, 2009, we reduced the NCAT credit commitments by $2.6 billion and on April 3, 2009, we reduced the TACN credit commitments by $465 million.

Secured Revolving Credit Facility This $11.4 billion facility is secured by U.S. and Canadian automotive finance assets, and the borrowers under the facility are structured as bankruptcy-remote special-purpose entities. Capacity under this facility declines to $7.9 billion in June 2010 and ultimately matures in June 2011.

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This facility includes a leverage ratio covenant that requires our reporting segments, excluding our Mortgage operations reporting segment, to have a ratio of consolidated borrowed funds to consolidated net worth not to exceed 11.0:1. For purposes of this calculation, the numerator is our total debt on a consolidated basis (excluding obligations of bankruptcy-remote special-purpose entities), less the total debt of our Mortgage operations reporting segment in our consolidated balance sheet (excluding obligations of bankruptcy-remote special-purpose entities). The denominator is our consolidated net worth less our Mortgage operations consolidated net worth and certain extensions of credit from us to our Mortgage operations. As of March 31, 2009, the leverage ratio was 2.6:1. The following table summarizes the calculation of the leverage ratio covenant.

March 31, 2009 *($ in millions)*	**GMAC LLC**	**Less: Mortgage operations**	**Adjusted leverage metrics**
Consolidated borrowed funds			
Total debt	$ 113,424	$ 27,565	$ 85,859
Less:			
Obligations of bankruptcy-remote SPEs	(47,191)	(3,415)	(43,776)
Intersegment eliminations		(5,297)	5,297
Consolidated borrowed funds used for leverage ratio	$ 66,233	$ 18,853	$ 47,380
Consolidated net worth			
Total equity	$ 22,021	$ 2,961	$ 19,060
Less			
Intersegment credit extensions	(655)		(655)
Consolidated net worth used for leverage ratio	$ 21,366	$ 2,961	$ 18,405
Leverage ratio (a)			**2.6**

(a) We remain subject to a leverage ratio as calculated prior to the formation of the June 2008 secured revolving credit facility, but on significantly reduced debt balances relative to prior periods. As of March 31, 2009, the leverage ratio as calculated based on that methodology was 3.0:1.

Variable note funding facility This facility is available to fund U.S. dealer floorplan receivables at all times, including in the event of GM filing for Chapter 11 bankruptcy reorganization. At the start of 2009 this facility had two separate maturity dates with $3.0 billion coming due in March 2009 and another $3.0 billion coming due in March 2010. The $3.0 billion facility maturing in March 2009 was not renewed.

Bilateral/Multilateral bank facilities (North American and International operations) These are primarily private securitization facilities that permanently fund a specific pool of assets. Most of the facilities for International operations are revolving; therefore, they allow for the funding of additional assets during the commitment period. Internationally, there are also secured bank lines that provided $1.5 billion of total capacity at March 31, 2009.

Repurchase agreements Our Mortgage operations have relationships with banks and securities firms to provide funding for mortgage loans and securities through repurchase agreements and other similar arrangements on a domestic and international basis. On March 16, 2009, our $1 billion syndicated whole-loan repurchase facility was terminated. While the termination lowered our overall available capacity, we did not have an outstanding debt balance due to the availability of a more efficient cost of funds within GMAC Bank and limited eligible collateral.

Facility for construction-lending receivables In the first quarter of 2008 this syndicated facility to fund construction and commercial lending receivables went into early amortization due to Moody s decision not to reaffirm the facility rating. As a result, all forward commitments to fund receivable obligations previously eligible for financing under this facility were funded by alternative sources. As of March 31, 2009, we had $407 million of debt outstanding under the facility.

Facility for mortgage servicing rights As of March 31, 2009, we had a $1.0 billion facility through which eligible mortgage servicing rights could be funded. This facility was renewed in the first quarter and is scheduled to mature in May 2010.

Facility for servicer advances As of March 31, 2009, we had a $700 million facility to fund mortgage servicer advances.

Facilities for international mortgage loans International facilities to fund mortgage loans prior to their sale or securitization include liquidity commitments to fund loans in the United Kingdom and the Netherlands. In recognition of reduced financing needs abroad, we have been working with our third-party credit providers to realign our funding needs resulting in further reductions of unutilized lending commitments as well as transferring ownership of the underlying collateral via mortgage-backed securitizations or whole-loan sales.

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Commercial Finance operations Maintains conduits to fund trade receivables.

Whole-loan forward flow agreements These represent commitments from counterparties to purchase U.S. automotive retail assets. One of our long-term strategic financing agreements includes a commitment from a financial institution to purchase up to $10.0 billion of U.S. retail automotive finance contracts every year through June 2010. There is $12.0 billion of capacity under this funding arrangement as of March 31, 2009. Our other long-term strategic financing agreement provides funding of up to $3.9 billion through October 2010.

The following table shows the current capacity and potential capacity under our secured uncommitted facilities as of March 31, 2009, and December 31, 2008. Current capacity represents funding capacity that is available upon request as excess collateral resides in certain facilities. The potential capacity on the committed secured facilities can be utilized only upon pledge of available eligible assets. The financial institutions providing the uncommitted facilities are not legally obligated to advance funds under them.

Secured uncommitted facilities

	March 31, 2009				December 31, 2008			
($ in billions)	**Outstanding**	**Current capacity (a)**	**Potential capacity (b)**	**Total capacity**	Outstanding	Current capacity (a)	Potential capacity (b)	Total capacity
Global Automotive Finance operations								
North American operations								
Federal Reserve Bank advances	**$**	**$ 3.7**	**$**	**$ 3.7**	$	$ 4.1	$	$ 4.1
International operations								
Bilateral/multilateral bank facilities	**0.3**			**0.3**	0.3			0.3
Total Global Automotive Finance operations	**0.3**	**3.7**		**4.0**	0.3	4.1		4.4
Mortgage operations FHLB advances	**9.2**	**0.5**		**9.7**	9.3	0.2		9.5
Other								
Commercial Finance operations					0.1			0.1
Total	**$ 9.5**	**$ 4.2**	**$**	**$ 13.7**	$ 9.7	$ 4.3	$	$ 14.0

(a) Funding is generally available upon request as excess collateral resides in certain facilities.
(b) Funding is generally available to the extent incremental collateral is available and contributed to the facilities.

Federal Reserve Bank advances On September 11, 2008, GMAC Bank was granted access to the Term Auction Facility (TAF). The Discount Window is the primary credit facility under which the Federal Reserve extends collateralized loans to depository institutions at terms from overnight up to ninety days. The TAF program auctions a pre-announced quantity of collateralized credit starting with a minimum bid for term funds of 28- or 84-day maturity. GMAC Bank has pledged $4.6 billion of automotive loans and leasing financings to participate in the Discount Window and TAF program at varying collateral requirements. Use of the proceeds from these programs is not limited to the financing of automotive assets and is available to GMAC Bank for general corporate purposes. At March 31, 2009, GMAC Bank had no outstanding borrowings under these programs with unused capacity of $3.7 billion.

FHLB advances GMAC Bank has an advance agreement with the Federal Home Loan Bank of Pittsburgh (FHLB). Under the agreement the FHLB has a blanket lien on all GMAC Bank assets. GMAC Bank had assets pledged and restricted as collateral totaling $15.4 billion and $16.0 billion as of March 31, 2009, and December 31, 2008, respectively. The FHLB will allow GMAC Bank to encumber elsewhere any assets restricted as collateral not needed to collateralize existing FHLB advances.

Regulatory Capital

As a bank holding company, we and our wholly owned banking subsidiary, GMAC Bank, are subject to risk-based capital and leverage guidelines by federal regulators that require that our capital-to-assets ratios meet certain minimum standards. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary

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action by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

The risk-based capital ratio is determined by allocating assets and specified off balance sheet financial instruments into six weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Under the guidelines, total capital is divided into two tiers: Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common equity, minority interests, and qualifying preferred stock (including fixed-rate cumulative preferred stock issued and sold to the U.S. Department of Treasury), less goodwill and other adjustments. Tier 2 capital generally consists of preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt, the allowance for loan losses, and other adjustments. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital.

Total risk-based capital is the sum of Tier 1 capital and Tier 2 capital. Under the guidelines, banking organizations are required to maintain a minimum Total risk-based capital ratio (total capital to risk-weighted assets) of 8% and a Tier 1 risk-based capital ratio of 4%. Our bank depository institution, GMAC Bank, will continue to be required to maintain well-capitalized levels, which dictate a Total risk-based capital ratio of 10% and a Tier 1 risk-based capital ratio of 6%, as described above.

The federal banking regulators also have established minimum leverage ratio guidelines. The leverage ratio is defined as Tier 1 capital divided by adjusted average total assets (which reflect adjustments for disallowed goodwill and certain intangible assets). The minimum Tier 1 leverage ratio is 3% or 4% depending on factors specified in the regulations.

Additionally, on July 21, 2008, GMAC, FIM Holdings, IB Finance Holding Company, LLC, GMAC Bank, and the FDIC entered into a Capital and Liquidity Maintenance Agreement (CLMA). The CLMA requires capital at GMAC Bank to be maintained at a level such that GMAC Bank s leverage ratio is at least 11% for a three-year period. For this purpose, leverage ratio is determined in accordance with the FDIC s regulations related to capital maintenance.

The minimum risk-based capital requirements adopted by the federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. The Basel Committee has proposed a revision to the Accord (Basel II). U.S. banking regulators are in the process of incorporating the Basel II Framework into the existing risk-based capital requirements. The Basel II rules will also apply to our operations in non-U.S. jurisdictions. We continue to monitor developments with respect to Basel II requirements and are working to ensure successful execution within the required time periods.

The following table summarizes our capital ratios and risk-weighted assets as of March 31, 2009. GMAC LLC was not previously required to calculate risk-based capital ratios or a leverage ratio. The methodology of calculating these ratios may be refined over time.

($ in millions)	**Amount**	**Ratio**	**Required minimum**	**Well-capitalized minimum**
Risk-based capital				
Tier 1 (to risk-weighted assets)				
GMAC LLC	**$20,548**	**10.35%**	**4.00%**	**6.00%**
GMAC Bank	**3,975**	**15.72%**	**(a)**	**6.00%**
Total (to risk-weighted assets)				
GMAC LLC	**$23,410**	**11.80%**	**8.00%**	**10.00%**
GMAC Bank	**4,294**	**16.99%**	**(a)**	**10.00%**
Tier 1 leverage (to adjusted average assets) (c)				
GMAC LLC	**$20,548**	**11.23%**	**3.00 4.00%**	**(b)**
GMAC Bank	**3,975**	**11.38%**	**(a)**	**5.00%**

(a) GMAC Bank is required to maintain well-capitalized levels for Tier 1 risk-based capital and Total risk-based capital, and a Tier 1 leverage ratio of 11%.
(b) There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.
(c) Federal regulatory reporting guidelines require the calculation of adjusted average assets using a daily average methodology. We currently use a monthly average methodology. We are in the process of modifying information systems to address the daily average requirement.

At March 31, 2009, GMAC LLC and GMAC Bank were well-capitalized under the federal regulatory agencies definitions as summarized in the table above.

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Supervisory Capital Assessment Program

The following table was released by the Federal Reserve Bank of Chicago (FRBC) on May 7, 2009, which reflects capital requirements for GMAC LLC as a result of the Board of Governors of the Federal Reserve System s Supervisory Capital Assessment Program (SCAP).

December 31, 2008 *($ in billions)*	**Amount**	**As % of RWA**
Tier 1 capital	$ 17.4	10.1%
Tier 1 common capital	11.1	6.4%
Risk-weighted assets	172.7	

	More adverse scenario	
Estimated for 2009 and 2010 for the more adverse scenario	**Amount**	**As % of loans**
Total estimated losses	$ 9.2	
First lien mortgages	2.0	10.2%
Second/junior lien mortgages	1.1	21.2%
Commercial and industrial loans	1.0	2.7%
Commercial real estate loans	0.6	33.3%
Credit card loans	n/a	n/a
Securities (available-for-sale and held-to-maturity)	0.5	n/a
Trading and counterparty	n/a	n/a
Other (a)	4.0	n/a
Memo: Purchase accounting adjustments	n/a	
Resources other than capital to absorb losses (b)	(0.5)	
SCAP buffer added for more adverse scenario		
(SCAP buffer is defined as additional Tier 1 Common/contingent Common)		
Indicated SCAP buffer as of December 31, 2008	6.7	
Less: Capital actions and effects of Q1 2009 results (c)	(4.8)	
SCAP buffer (d)	11.5	

(a) Includes other consumer and nonconsumer loans and miscellaneous commitments and obligations.
(b) Resources to absorb losses include preprovision net revenue less the change in the allowance for loan and lease losses.
(c) Capital actions include completed or contracted transactions since Q4 2008.
(d) GMAC LLC needs to augment the capital buffer with $11.5 billion of Tier 1 Common/contingent Common of which $9.1 billion must be new Tier 1 capital.
Note: Numbers may not sum due to rounding.

The SCAP was a forward-looking evaluation designed to estimate losses, revenues and reserve needs for bank holding companies for 2009 and 2010 under baseline, and more adverse , scenarios. Additional capital was required where the assessment under the more adverse scenario indicated such a need. The estimates provided are not forecasts of expected losses or revenues. The amount of capital needed that is in addition to the Indicated SCAP Buffer as of December 31, 2008 is primarily related to GMAC s unique risk concentration and the quality and composition of our common equity.

In connection with the SCAP, we have committed that no later than November 9, 2009, we will have increased the common shareholder equity component of Tier 1 capital by $11.5 billion. By the same date, we will increase overall Tier 1 capital by $9.1 billion. Depending on the method of capital augmentation used (e.g., issuance of new common equity or issuance of mandatorily convertible preferred shares or conversion of existing equity into a form of Tier 1 common equity) the increase in common shareholders equity may accomplish the increase in overall Tier 1 capital. We are required to provide the FRBC with information regarding how we intend to accomplish these increases no later than June 8, 2009.

The capital amounts described above do not include the additional capital we will require to finance Chrysler dealers and customers pursuant to the Master Auto Finance Agreement Term Sheet (MAFA) that we announced on May 5, 2009. As previously disclosed, the U.S. Government has indicated that it intends to support GMAC by providing the capital required to support the financing of Chrysler dealers and customers pursuant to the MAFA.

Credit Ratings

The cost and availability of unsecured financing are influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security, or obligation. Lower ratings generally result in higher borrowing costs and reduced access to capital markets. This is particularly true for certain institutional investors whose investment guidelines require investment-grade ratings on term debt and the two highest rating categories for short-term debt (particularly money market investors).

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Substantially all our debt has been rated by nationally recognized statistical rating organizations. The following table summarizes our current ratings and outlook by the respective nationally recognized rating agencies.

Rating Agency	**Commercial paper**	**Senior debt**	**Outlook**	**Date of last action**
Fitch	C	RD	Watch-Positive	January 8, 2009 (a)
Moody s	Not-Prime	C	Developing	November 20, 2008 (b)
S&P	C	CCC	Negative	February 4, 2009 (c)
DBRS	R-5	CCC	Review-Negative	November 21, 2008 (d)

(a) Fitch downgraded our senior debt to RD (restricted default) from CC, affirmed the commercial paper rating of C, and changed the outlook to Watch-Positive on January 8, 2009.
(b) Moody s downgraded our senior debt to C from Caa1, affirmed the commercial paper rating of Not-Prime, and changed the outlook to Developing on November 20, 2008.
(c) Standard & Poor s raised our senior debt rating to CCC from SD (selective default), affirmed the commercial paper rating of C, and changed the outlook to Negative on February 4, 2009.
(d) DBRS downgraded our senior debt rating to CCC from B, affirmed the commercial paper rating of R-5, and maintained the outlook at Review-Negative on November 21, 2008.

In addition, ResCap, our indirect wholly owned subsidiary, has ratings (separate from GMAC) from the nationally recognized rating agencies. The following table summarizes ResCap s current ratings and outlook by the respective agency.

Rating Agency	**Commercial paper**	**Senior debt**	**Outlook**	**Date of last action**
Fitch	C	D	Watch-Positive	January 8, 2009 (a)
Moody s	Not-Prime	C	Stable	November 20, 2008 (b)
S&P	C	CC	Negative	February 4, 2009 (c)
DBRS	R-5	C	Review-Negative	November 21, 2008 (d)

(a) Fitch affirmed ResCap s senior debt rating of D, affirmed the commercial paper rating of C, and changed the outlook to Watch-Positive on January 8, 2009.
(b) Moody s downgraded ResCap s senior debt rating to C from Ca, affirmed the commercial paper rating of Not-Prime, and changed the outlook to Stable on November 20, 2008.
(c) Standard & Poor s raised ResCap s senior debt rating to CC from SD (selective default), affirmed the commercial paper rating of C, and changed the outlook to Negative on February 4, 2009.
(d) DBRS affirmed ResCap s senior debt rating of C, affirmed the commercial paper rating of R-5, and changed the outlook to Review-Negative on November 21, 2008.

Off-balance Sheet Arrangements

We use off-balance sheet entities as an integral part of our operating and funding activities. The arrangements include the use of qualifying special-purpose entities (QSPEs) and variable interest entities (VIEs) for securitization transactions, mortgage warehouse facilities, and other mortgage-related funding programs. The majority of our off-balance sheet arrangements consist of securitization structures believed to be similar to those used by many other financial service companies.

The following table summarizes assets carried off-balance sheet in these entities.

($ in billions)	**March 31, 2009**	December 31, 2008
Retail finance receivables	**$ 11.8**	$ 13.3
Wholesale loans	**7.1**	12.5
Mortgage loans	**119.3**	126.2

Total off-balance sheet activities (a)	**$**	**138.2**	$	152.0

(a) Includes only securitizations accounted for as sales under SFAS 140, as further described in Note 6 to the Condensed Consolidated Financial Statements.

Critical Accounting Estimates

We have identified critical accounting estimates that, as a result of judgments, uncertainties, uniqueness, and complexities of the underlying accounting standards and operations involved could result in material changes to our financial condition, results of operations, or cash flows under different conditions or using different assumptions.

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Our most critical accounting estimates are:

- Fair value measurements
- Valuation of investment securities
- Valuation of loans held-for-sale
- Determination of the allowance for loan losses
- Valuation of automotive lease residuals
- Valuation of mortgage servicing rights
- Valuation of interests in securitized assets
- Determination of reserves for insurance losses and loss adjustment expenses

There have been no significant changes in the methodologies and processes used in developing these estimates from what was described in our 2008 Annual Report on Form 10-K.

Fair Value of Financial Instruments

We follow the fair value hierarchy set forth in Note 15 to the Condensed Consolidated Financial Statements in order to prioritize the data used to measure fair value. We review and modify, as necessary, our fair value hierarchy classifications on a quarterly basis. As such, there may be reclassifications between hierarchy levels.

At March 31, 2009, approximately 12% of total assets, or $21.0 billion, consisted of financial instruments recorded at fair value. Approximately 53% of the assets reported at fair value were valued using Level 3 inputs. At March 31, 2009, approximately 2% of total liabilities, or $3.5 billion, consisted of financial instruments recorded at fair value. Approximately 73% of the liabilities reported at fair value were valued using Level 3 inputs. See Note 15 to the Condensed Consolidated Financial Statements for descriptions of valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized.

A large percentage of our fair value assets and liabilities are Level 3. While we execute various hedging strategies to mitigate our exposure to changes in fair value, we cannot fully eliminate our exposure to volatility caused by fluctuations in market prices. In 2009 and throughout 2008, the credit markets across the globe have experienced severe dislocation. Market demand for asset-backed securities, particularly those backed by mortgage assets, has significantly contracted and in many markets has virtually disappeared. Further, market demand by whole-loan purchasers has also contracted. These unprecedented market conditions have adversely impacted us as well as our competitors. As the market conditions continue, our assets and liabilities are subject to valuation adjustment and changes in the inputs we utilize to measure fair value.

Our Level 3 assets declined 36%, or $5.7 billion, and our Level 3 liabilities declined 12%, or $223 million compared to December 31, 2008. The decline in Level 3 assets was primarily driven by fewer nonrecurring fair value measurements specifically loans-held for sale and impairments on our investment in operating leases. Negative mortgage servicing valuations also contributed to the decrease in Level 3 assets. During the three months ended March 31, 2009, we experienced reduced cash flows and increased prepayment assumptions as a result of lower market interest rates. In addition, the hedge performance was significantly less favorable primarily due to changes in the spreads between our servicing assets and the derivative instruments we use to manage interest rate risk associated with those assets. Our ability to hedge interest rate risk and foreign currency risk was restricted in the latter half of 2008 and during the three months ended March 31, 2009, by the limited availability of willing counterparties to enter into forward arrangements. The decline in Level 3 assets was also attributable to declines in the valuation of consumer finance receivables and loans, net of unearned income, elected to be measured at fair value under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). As the value of these SFAS 159-elected assets declined, the value of the related on-balance sheet securitization debt, also declined. The on-balance sheet securitization debt was also elected to be measured at fair value under SFAS 159 resulting in offsetting valuation gains. The decline in the fair value of the on-balance sheet securitization debt caused the Level 3 liabilities to decline during the three months ended March 31, 2009, compared to December 31, 2008.

We have numerous internal controls in place to ensure the appropriateness of fair value measurements. Significant fair value measures are subject to detailed analytics and management review and approval. We have an established model validation policy and program in place that covers all models used to generate fair value measurements. This model validation program ensures a controlled environment is used for the development, implementation, and use of the models and change procedures. Further, this program uses a risk-based approach to select models to be reviewed and validated by an independent internal risk group to ensure the models are consistent with their intended use, the logic within the models is reliable, and the inputs and outputs from these models are appropriate. Additionally, a wide array of operational controls is in place to ensure the fair value measurements are reasonable, including controls over the inputs into and the outputs from the fair value measurement models. For example, we backtest the internal assumptions used within models against actual performance. We also monitor the market for recent trades, market surveys, or other market information that may be used to benchmark model inputs or outputs. Certain valuations will also be benchmarked to market indices when appropriate and available. We have scheduled model and/or input recalibrations that occur on a periodic basis but will recalibrate earlier if significant variances are observed as part of the backtesting or benchmarking noted above.

Considerable judgment is used in forming conclusions from market observable data used to estimate our Level 2 fair value measurements and in estimating inputs to our internal valuation models used to estimate our Level 3 fair value measurements. Level 3 inputs such as interest rate movements, prepayment speeds, credit losses, and discount rates are inherently difficult to estimate. Changes to these inputs can have a significant effect on fair value measurements. Accordingly, our estimates of fair value are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange.

Recently Issued Accounting Standards

Refer to Note 1 of the Notes to Condensed Consolidated Financial Statements.

Forward Looking Statements

The foregoing Management s Discussion and Analysis of Financial Condition and Results of Operations and other portions of this Form 10-Q contain various forward-looking statements within the meaning of applicable federal securities laws, including the Private Securities Litigation Reform Act of 1995, that are based upon our current expectations and assumptions concerning future events, which are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated.

The words expect, anticipate, estimate, forecast, initiative, objective, plan, goal, project, outlook, priorities, target, int may, would, could, should, believe, potential, continue, or the negative of any of these words or similar expressions is intended to i forward-looking statements. All statements herein, other than statements of historical fact, including without limitation statements about future events and financial performance, are forward-looking statements that involve certain risks and uncertainties.

While these statements represent our current judgment on what the future may hold and we believe these judgments are reasonable, these statements are not guarantees of any events or financial results, and GMAC s and Residential Capital, LLC s (ResCap) actual results may differ materially due to numerous important factors that are described in the most recent reports on SEC Forms 10-K and 10-Q for GMAC and ResCap, each of which may be revised or supplemented in subsequent reports on SEC Forms 10-Q and 8-K. Such factors include, among others, the following: the inability or unwillingness of the U.S. government to provide the additional liquidity and capital necessary for us to finance Chrysler LLC (Chrysler) dealers and customers and uncertainty around the ultimate form, amount, and terms of such capital; our inability to successfully accommodate the additional risk exposure relating to providing wholesale and retail financing to Chrysler dealers and customers and the resulting impact to our financial stability; uncertainty related to Chrysler s bankruptcy process and its proposed industrial alliance with Fiat SpA; the success or lack thereof of Chrysler s bankruptcy process and its proposed industrial alliance with Fiat SpA; our ability to recover any payments or obligations owed to us by Chrysler during Chrysler s bankruptcy process; uncertainty related to the new financing arrangement between GMAC and Chrysler; uncertainty regarding our ability to raise the additional capital required as a result of the recently completed Supervisory Capital Assessment Program and uncertainty around the ultimate form, amount, and terms of such capital; securing low cost funding for GMAC and ResCap and maintaining the mutually beneficial relationship between GMAC, General Motors Corporation (GM), and Chrysler; our ability to maintain an appropriate level of debt; the profitability and financial condition of GM and Chrysler; our ability to realize the anticipated benefits associated with our recent conversion to a bank holding company and the increased regulation and restrictions that we will be subject to; uncertainty concerning our ability to access additional federal liquidity programs; continued challenges in the residential mortgage and capital markets; continued deterioration in the residual value of off-lease vehicles; the continuing negative impact on ResCap of the decline in the U.S. housing market; changes in U.S. government-sponsored mortgage programs or disruptions in the markets in which our mortgage subsidiaries operate; disruptions in the market in which we fund GMAC s and ResCap s operations with resulting negative impact on our liquidity; changes in our accounting assumptions that may be required by or result from changes in accounting rules or their application that could result in an impact on earnings; changes in the credit ratings of ResCap, GMAC, GM, or Chrysler; changes in economic conditions, currency exchange rates, or political stability in the markets in which we operate; and

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changes in the existing or the adoption of new laws, regulations, policies, or other activities of governments, agencies, and similar organizations. Investors are cautioned not to place undue reliance on forward-looking statements. GMAC undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or other such factors that affect the subject of these statements, except where expressly required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our automotive financing, mortgage, and insurance activities give rise to market risk, representing the potential loss in the fair value of assets or liabilities caused by movements in market variables, such as interest rates, foreign-exchange rates, and equity prices. We are primarily exposed to interest rate risk arising from changes in interest rates related to financing, investing, and cash management activities. More specifically, we have entered into contracts to provide financing, to retain mortgage servicing rights, and to retain various assets related to securitization activities all of which are exposed in varying degrees to changes in value due to movements in interest rates. Interest rate risk arises from the mismatch between assets and the related liabilities used for funding. We enter into various financial instruments, including derivatives, to maintain the desired level of exposure to the risk of interest rate fluctuations. Refer to Note 12 to our Condensed Consolidated Financial Statements for further information.

We are exposed to foreign-currency risk arising from the possibility that fluctuations in foreign-exchange rates will affect future earnings or asset and liability values related to our global operations. Our most significant foreign-currency exposures relate to the Euro, Canadian dollar, British pound sterling, Brazilian real, and Mexican peso.

We are also exposed to equity price risk, primarily in our Insurance operations, which invests in equity securities that are subject to price risk influenced by capital market movements. Our equity securities are considered investments, and we do not enter into derivatives to modify the risks associated with our Insurance operations investment portfolio.

While the diversity of activities from our complementary lines of business may partially mitigate market risk, we also actively manage this risk. We maintain risk management control systems to monitor interest rate, foreign-currency exchange rate, equity price risks, and any of their related hedge positions. Positions are monitored using a variety of analytical techniques including market value, sensitivity analysis, and value at risk models.

Since December 31, 2008, there have been no material changes in these market risks. Refer to our Annual Report on Form 10-K for the year ended December 31, 2008, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, filed with the Securities and Exchange Commission, for further discussion on value at risk and sensitivity analysis.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), designed to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized, and reported within the specified time periods. As of the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures. Based on our evaluation, GMAC s Chief Executive Officer and Chief Financial Officer each concluded that our disclosure controls and procedures were effective as of March 31, 2009.

There were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within GMAC have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to potential liability under laws and government regulations and various claims and legal actions that are pending or may be asserted against us. Please refer to the Legal Proceedings section in our 2008 Annual Report on Form 10-K for additional information regarding pending legal actions.

Item 1A. Risk Factors

Other than with respect to the risk factors provided below, there have been no material changes to the Risk Factors described in our 2008 Annual Report on Form 10-K.

Our business and the businesses of our subsidiaries, including Residential Capital, LLC (ResCap), require substantial capital, and continued disruption in our funding sources and access to the capital markets would continue to have a material adverse effect on our liquidity and financial condition.

Our liquidity and ongoing profitability are, in large part, dependent upon our timely access to capital and the costs associated with raising funds in different segments of the global capital markets. We depend and will continue to depend on our ability to access diversified funding alternatives to meet future cash flow requirements and to continue to fund our operations. Our funding strategy and liquidity position have been significantly adversely affected by the ongoing stress in the credit markets that began in the middle of 2007. These adverse conditions reached unprecedented levels through 2008, and have continued in recent months. The capital markets remain highly volatile and access to liquidity has been significantly reduced. These conditions, in addition to the reduction in our credit ratings, have resulted in increased borrowing costs and our inability to access the unsecured debt markets in a cost-effective manner. This has resulted in an increased reliance on asset-backed and other secured sources of funding, which also has been constrained in the current environment. Some of these facilities have not been renewed placing additional pressure on our liquidity position, and our inability to renew loans and facilities as they mature would have a further negative impact on our liquidity position. It could become more difficult to renew loans and facilities as many lenders and counterparties are also facing liquidity and capital challenges as a result of the current stress in the financial markets. Furthermore, certain of our credit facilities include change of control provisions that may become triggered as a result of changes in our ownership that will occur, and if we are unable to minimize any adverse consequences with respect to those facilities, our liquidity position could be adversely affected. We also have significant maturities of unsecured debt each year. Approximately $11.8 billion of our outstanding unsecured long-term debt matures in 2009, and $6.9 billion matures in 2010. In order to retire these instruments, we either will need to refinance this debt, which will be very difficult should the current volatility in the credit markets continue or worsen, or generate sufficient cash to retire the debt.

Upon our approval to become a bank holding company, we received from the U.S. Department of Treasury (the U.S. Treasury) a $5 billion investment under their Troubled Asset Relief Program (TARP). As part of an agreement with Chrysler LLC (Chrysler) to provide automotive financing products and services to Chrysler dealers and customers, (refer to Note 18 to the Condensed Consolidated Financial Statements for further details with respect to this agreement) we expect that the U.S. government will provide us with additional equity capital to support our financing of Chrysler dealers and customers and will also provide us with reimbursement related to certain losses that we may incur in connection with providing such financing. If the U.S. Treasury is unable or unwilling to provide such equity capital, we would not be obligated to finance Chrysler dealers and customers. The inability or unwillingness of the U.S. government to provide this additional equity capital or to reimburse certain losses would have a material adverse impact on our ability to provide financing to Chrysler dealers and customers, and if as a result we determined not to fund Chrysler dealers and customers, we would not realize the potential benefits of that relationship. Separately, as a result of the Supervisory Capital Assessment Program, we have committed that no later than November 9, 2009, we will have increased the common shareholder equity component of Tier 1 capital by $11.5 billion. By the same date, we are required to increase overall Tier 1 capital by $9.1 billion. If we are unable to successfully raise this capital, it could have a material adverse impact on our business, results of operation, and financial position.

Eligibility to participate in further government funding programs, such as the Temporary Liquidity Guarantee Program (the TLG Program), is subject to the approval of various governmental authorities, which may include the Federal Reserve Board, the U.S. Treasury and the FDIC, and such approvals are subject to numerous conditions. We may not be successful in completing the actions or satisfying the conditions required by the Federal Reserve to obtain approval for further government funding. GMAC s inability to do so could have a material adverse effect on its business, results of operations, and financial position.

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Furthermore, we have recently provided a significant amount of funding to ResCap, and ResCap remains heavily reliant on support from us in meeting its liquidity and capital requirements. Any negative events with respect to ResCap could serve as a further drain on our financial resources.

ResCap s liquidity has also been adversely affected, and may be further adversely affected in the future, by margin calls under certain of its secured credit facilities that are dependent in part on the lenders valuation of the collateral securing the financing. Each of these credit facilities allows the lender, to varying degrees, to revalue the collateral to values that the lender considers to reflect market values. If a lender determines that the value of the collateral has decreased, it may initiate a margin call requiring ResCap to post additional collateral to cover the decrease. When ResCap is subject to such a margin call, it must provide the lender with additional collateral or repay a portion of the outstanding borrowings with minimal notice. Any such margin call could harm ResCap s liquidity, results of operations, financial condition, and business prospects. Additionally, in order to obtain cash to satisfy a margin call, ResCap may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses and adversely affect its results of operations and financial condition. Furthermore, continued volatility in the capital markets has made determination of collateral values uncertain compared to historical experience, and many of ResCap s lenders are taking a much more conservative approach to valuations. As a result, the frequency and magnitude of margin calls has increased, and we expect both to remain high compared to historical experience for the foreseeable future.

Recent developments in the market for many types of mortgage products (including mortgage-backed securities) have resulted in reduced liquidity for these assets. Although this reduction in liquidity has been most acute with regard to nonprime assets, there has been an overall reduction in liquidity across the credit spectrum of mortgage products. As a result, ResCap s liquidity has been and will continue to be negatively impacted by margin calls and changes to advance rates on its secured facilities. One consequence of this funding reduction is that ResCap may decide to retain interests in securitized mortgage pools that in other circumstances it would sell to investors, and ResCap will have to secure additional financing for these retained interests. If ResCap is unable to secure sufficient financing for them, or if there is further general deterioration of liquidity for mortgage products, it will adversely impact ResCap s business.

The profitability and financial condition of our operations are heavily dependent upon the performance, operations, and prospects of GM.

A significant portion of our customers are those of GM and GM dealers and other GM-related employees. As a result, a significant adverse change in GM s business, including significant adverse changes in GM s liquidity position and access to the capital markets, the production or sale of GM vehicles, the quality or resale value of GM vehicles, the use of GM marketing incentives, GM s relationships with its key suppliers, GM s relationship with the United Auto Workers and other labor unions and other factors impacting GM or its employees, or a GM bankruptcy could have a significant adverse effect on our profitability and financial condition.

We provide vehicle financing through purchases of retail automotive and lease contracts with retail customers of primarily GM dealers. We also finance the purchase of new and used vehicles by GM dealers through wholesale financing, extend other financing to GM dealers, provide fleet financing for GM dealers to buy vehicles they rent or lease to others, provide wholesale vehicle inventory insurance to GM dealers, provide automotive extended service contracts through GM dealers, and offer other services to GM dealers. In 2008, our share of GM retail sales and sales to dealers were 32% and 81%, respectively, in markets where GM operates. For the three month period ended March 31, 2009, these percentages totaled 18% and 78%, respectively. As a result, GM s level of automobile production and sales directly impacts our financing and leasing volume, the premium revenue for wholesale vehicle inventory insurance, the volume of automotive extended service contracts, and the profitability and financial condition of the GM dealers to whom we provide wholesale financing, term loans, and fleet financing. In addition, the quality of GM vehicles affects our obligations under automotive extended service contracts relating to such vehicles. Further, the resale value of GM vehicles, which may be impacted by various factors relating to GM s business such as brand image, the number of new GM vehicles produced or reduction in core brands, affects the remarketing proceeds we receive upon the sale of repossessed vehicles and off-lease vehicles at lease termination.

Our Global Automotive Finance operations are highly dependent on GM sales volume. In 2008 and continuing into the first quarter of 2009, global vehicle sales declined rapidly, and there is no assurance that the global automotive market, or GM s share of that market, will not suffer a significant further downturn. Vehicle sales volume could be further adversely impacted by any restructuring that would reduce the number of GM retail channels and core brands or consolidate GM s dealer network.

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In the event that GM or any of its significant subsidiaries were to file for bankruptcy, sales volume could decrease as a result of a reduction in consumer confidence, and GM s business could be otherwise materially adversely affected. This would in turn have a materially adverse impact on our business. In addition, pursuant to contractual arrangements with GM, whenever GM offers vehicle financing and leasing incentives to customers (e.g., lower interest rates than market rates), it will do so exclusively through GMAC, subject to certain limitations and exceptions. In the event of a GM bankruptcy, it is possible that GM would reject this exclusivity arrangement with us. If GM did so, this could have a material adverse effect on our business, profitability and financial condition. On April 27, 2009, GM announced that it had commenced a public exchange offer related to certain of its unsecured notes as part of its overall restructuring plan. GM indicated in its disclosures that it expects to seek bankruptcy relief if the public exchange offer is not consummated. According to GM disclosures, consummation of the exchange offers are subject to several conditions, including that the results are satisfactory to the U.S. Treasury.

It is difficult to predict with certainty all the consequences of a GM bankruptcy. However, there may be systemic economic impacts, such as increased unemployment rates, that could further impact our business.

We have substantial credit exposure to GM, and a GM bankruptcy could impact certain of our funding facilities.

We have entered into various operating and financing arrangements with GM. As a result of these arrangements, we have substantial credit exposure to GM.

As a marketing incentive, GM may sponsor residual support programs for retail leases as a way to lower customer s monthly payments. Under residual support programs, the contractual residual value is adjusted above GMAC s standard residual values. At lease origination, GM pays us the present value of the estimated amount of residual support it expects to owe at lease termination. When the lease terminates, GM makes a true-up payment to us if the estimated residual support payment is too low. Similarly, we make a true-up payment to GM if the estimated residual payment is too high and GM overpaid GMAC. Additionally, under what we refer to as lease pull-ahead programs, customers are sometimes encouraged by GM to terminate leases early in conjunction with the acquisition of a new GM vehicle. As part of these programs, we waive all or a portion of the customer s remaining payment obligation under the current lease. Under most programs, GM compensates us for the foregone revenue from the waived payments. Since these programs generally accelerate our remarketing of the vehicle, the resale proceeds are typically higher than otherwise would have been realized had the vehicle been remarketed at lease contract maturity. The reimbursement from GM for the foregone payments is, therefore, reduced by the amount of this benefit. GM makes estimated payments to us at the end of each month in which customers have pulled their leases ahead. As with residual support payments, these estimates are trued-up once all the vehicles that could have been pulled ahead have terminated and been remarketed. To the extent that the original estimates were incorrect, GM or GMAC may be obligated to pay each other the difference, as appropriate under the lease pull-ahead programs. GM is also responsible for risk sharing on returned lease vehicles in the United States and Canada whose resale proceeds are below standard residual values (limited to a floor). In addition, GM may sponsor rate support programs, which offer rates to customers below the standard market rates at which we purchase retail contracts (such as 0% financing). Under rate support programs, GM is obligated to pay us the present value of the difference between the customer rate and our standard rates. The amount of this payment is determined on a monthly basis based on subvented contract originations in a given month, and payment for GM s rate support obligation is due to us on the 15th of each following month.

Our credit exposure to GM is significant. As of March 31, 2009, we had approximately $2.0 billion in secured exposure, which includes primarily wholesale vehicle financing to GM-owned dealerships, notes receivable from GM, and vehicles leased directly to GM. We further had approximately $2.0 billion in unsecured exposure, which includes estimates of payments from GM related to residual support and risk-sharing agreements. If GM were to file for bankruptcy, payment on our unsecured exposures could be delayed or might not occur at all. In addition, we would become an unsecured creditor of GM to the extent that proceeds from the sale of our collateral related to secured exposures are insufficient to repay GM s obligations to us. Under the terms of certain agreements between GMAC and GM, GMAC has the right to offset certain of its exposures to GM against amounts GMAC owes to GM.

In connection with our dealer floorplan securitizations, if GM either (1) becomes subject to liquidation under Chapter 7 of the U.S. Bankruptcy Code or a similar provision of state or federal law; or (2) ceases to operate as an automobile manufacturer or undertakes to sell all or substantially all of its automobile manufacturing assets or business, in either case, after a petition has been filed under Chapter 11 of the U.S. Bankruptcy Code or a similar provision of state or federal law, then an early amortization event will occur with respect to such securitizations. Principal collections on the dealer accounts will be paid in accordance with the transactions documents, and no additional borrowings may be made during an early amortization period. In addition, if either of the two GM specific events were to occur as indicated above, an immediate event of default would occur under our $11.4 billion secured revolving credit facility that we entered into in June 2008. In this circumstance, all amounts outstanding under this facility would become immediately due and payable and, if the amounts outstanding were not repaid, the collateral securing the facility could be sold by the lender under the facility.

We may not realize anticipated benefits in connection with our new relationship with Chrysler, which has recently filed for bankruptcy protection

We have recently announced that we have entered into an agreement with Chrysler to provide automotive financing products and services to Chrysler dealers and customers, pursuant to which we will be the preferred provider of new wholesale financing for Chrysler dealer inventory. If we are unable to obtain additional equity capital from the U.S. Treasury to support our financing of Chrysler dealers and customers, we will be unable to provide the anticipated level of financing to Chrysler dealers and customers. Furthermore, there is uncertainty related to Chrysler s bankruptcy process and its proposed industrial alliance with Fiat SpA, and as a result our relationship with Chrysler, including the recently announced funding relationship described in Note 18 to the Condensed Consolidated Financial Statements, and our ability to recover any payments or obligations owed to us by Chrysler during Chrysler s bankruptcy process could be negatively impacted.

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

Refer to Form 8-K filed on January 21, 2009.

Item 3. Defaults upon Senior Securities

Not applicable.

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

The following matters were submitted to a vote of GMAC security holders during the first quarter of 2009.

Effective January 16, 2009, the holders of GMAC s Class A and Class B Common Equity Interests approved by joint unanimous consent the appointment of Lenard B. Tessler as the Chairman of the Board of Managers, effective as of January 9, 2009, to serve in such capacity, subject to removal procedures, in accordance with Article VIII of the Second Amended and Restated Limited Liability Company Operating Agreement of GMAC LLC dated as of December 31, 2008, as amended from time to time, and the laws of the State of Delaware, until his successor shall have been appointed and shall have qualified.

Effective January 30, 2009, the holders of GMAC s Class A and Class B Common Equity Interests approved by joint unanimous consent the transfer by Residential Capital, LLC to, and the acquisition by, GMAC or one of its subsidiaries of: (1) the Class M preferred limited liability company interests of IB Finance Holding Company, LLC; and (2) the Class M non-voting common limited liability company interests of IB Finance Holding Company, LLC.

Effective March 16, 2009, the holders of GMAC s Class A and Class B Common Equity Interests approved by joint unanimous consent: (1) GMAC taking, or causing any Person to take, any and all actions necessary and/or appropriate to cause Central Originating Lease, LLC to be treated as a corporation for federal, and if applicable, state and local income tax purposes; (2) GMAC operating Central Originating Lease, LLC s business through an entity that is classified as a corporation for federal, and if applicable, state and local income tax purposes; and (3) an Amendment to the Second Amended and Restated Limited Liability Company Operating Agreement of GMAC LLC, dated as of December 31, 2008, as amended from time to time.

Effective March 17, 2009, the holders of GMAC s Class A and Class B Common Equity Interests approved by joint unanimous consent: (1) the acquisition by GMAC, or one of its subsidiaries, of Residential Funding Securities, LLC and RFC Investments Limited, the holder of 100% of the ownership interests in RFSC International Limited; and (2) the transfer of Residential Funding Securities, LLC and RFC Investments Limited, the holder of 100% of the ownership interests in RFSC International Limited, to

GMAC or one of its subsidiaries.

Effective March 24, 2009, the holders of GMAC s Class A and Class B Common Equity Interests approved by joint unanimous consent the Third Amended and Restated Limited Liability Company Operating Agreement of GMAC LLC, dated as of March 24, 2009.

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Item 5. Other Information

In connection with the Supervisory Capital Assessment Program, we have provided a commitment letter to the Federal Reserve Bank of Chicago, pursuant to which we have agreed to augment our capital. Refer to Note 18 to the Condensed Consolidated Financial Statements for further details with respect to this commitment.

Item 6. Exhibits

The exhibits listed on the accompanying Index of Exhibits are filed as a part of this report. This Index is incorporated herein by reference.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, this 8th day of May 2009.

GMAC LLC

(Registrant)

/s/ Robert S. Hull

Robert S. Hull

Executive Vice President and

Chief Financial Officer

/s/ David J. DeBrunner

David J. DeBrunner

Vice President, Chief Accounting Officer, and

Corporate Controller

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INDEX OF EXHIBITS

Exhibit	Description	Method of Filing
3.1	Fourth Amended and Restated Limited Liability Company Operating Agreement of GMAC LLC, dated as of April 15, 2009	Filed as Exhibit 3.1 to the Company s Current Report on Form 8-K dated as of April 17, 2009 (File No. 1-3754), incorporated herein by reference.
10.1	Governance Agreement, dated as of January 16, 2009, by and between GMAC LLC, FIM Holdings LLC, GM Finance Co. Holdings LLC and the United States Department of the Treasury	Filed as Exhibit 10.1 to the Company s Current Report on Form 8-K dated as of January 21, 2009 (File No. 1-3754), incorporated herein by reference.
10.2	Amendment No. 1 to the Governance Agreement, dated as of March 24, 2009, by and between GMAC LLC, FIM Holdings LLC, GM Finance Co. Holdings LLC and the United States Department of the Treasury	Filed as Exhibit 10.2 to the Company s Current Report on Form 8-K dated as of March 25, 2009 (File No. 1-3754), incorporated herein by reference.
12	Computation of Ratio of Earnings to Fixed Charges	Filed herewith.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.

The following exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that Section. In addition, Exhibit No. 32 shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934

32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350	Filed herewith.