

To our Shareholders, Customers and Employees:

2007 was a challenging year for the real estate market and for HouseValues. Existing home sales fell significantly in the U.S. last year, including declines of more than 20 percent in former high growth markets such as California, Arizona, Florida and Nevada. Market uncertainty and lower commission income led many real estate agents to reduce marketing expenditures, contributing to a disappointing 30 percent decline in HouseValues' revenue.

Despite these challenges, HouseValues demonstrated solid progress toward our business objectives in 2007. I am proud of the discipline our team showed throughout the year, both by focusing sales and marketing efforts on profitable customer acquisition and through ongoing attention to broader expense management. This expense discipline and the continued allegiance of thousands of long-term customers enabled HouseValues to generate \$2.6 million in Adjusted EBITDA in 2007.

Beyond demonstrating the financial discipline to adapt in a difficult environment, HouseValues is also taking advantage of the opportunities created by the downturn. Our intent is to make strategic moves that position us for long term success and category leadership. One such move was the acquisition of Realty Generator which expanded our addressable market to include brokerage companies while also broadening our product offerings. This attractive business had already achieved profitability and rapid growth on its own despite limited sales efforts and lead generation capacity. Given our proven strengths in these areas, we believe that HouseValues is ideally suited to profitably scale Realty Generator.

Realty Generator's turnkey business solution also provides an economic model that is in many ways better for both HouseValues and our customers. While thousands of real estate professionals have grown their businesses through our agent-direct products, it has proven expensive to hold agents accountable for the behaviors that often play a key role in determining their success. Realty Generator addresses this problem by providing to brokerage companies the tools they need to drive agent success and accountability at the local level. This results in better consumer follow-up, greater success for both brokerage companies and their agents, and stronger margins for Realty Generator.

Most importantly, the Realty Generator acquisition will also provide leverage for our existing business. The company's software platform and business model provide a better experience for the agent as well as the home buyers and sellers that they serve. As we deliver these new features to our agent-direct customers, we expect to enhance their success as well as our customer unit economics. These product integration efforts are already underway.

While the acquisition of Realty Generator will go a long way toward enhancing our products, we believe our investment in ActiveRain will help us broaden our sales reach. ActiveRain is a leading community and social networking platform for real estate professionals. The company has attained a high level of user engagement and has rapidly grown to more than 80,000 members. While ActiveRain will continue to operate as a completely independent business, our strategic relationship creates the potential for a new and rapidly growing channel.

There remains a large and attractive opportunity in residential real estate and we believe that companies like HouseValues will play an ever growing role in the industry's development. While we expect the real estate market to be challenging in the near term, we also believe that great companies are built in just such difficult times. Our strong cash position provides the means, and our recent investments demonstrate the ability, to put our financial strength to work strategically for HouseValues and our customers. We expect to emerge from this cycle poised for profitable growth and armed with the leading marketing platform for real estate professionals.

Our team looks forward to updating you on our progress in the quarters and years to come. Thank you for your continued support.

Sincerely,



Ian Morris
President and Chief Executive Officer
HouseValues, Inc.