STERLING FINANCIAL CORP /PA/
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Filed by The PNC Financial Services Group, Inc.

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Subject Company: Sterling Financial Corporation

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On January 17, 2008, The PNC Financial Services Group, Inc. (PNC) issued a press release and held a conference call for investors regarding PNC s earnings and business results for the fourth quarter and year ended December 31, 2007. PNC also provided supplementary financial information on its web site, including financial information disclosed in connection with its press release, and provided electronic presentation slides on its web site used in connection with the related investor conference call. Such supplementary financial information and electronic presentation slides consisted of the following:

THE PNC FINANCIAL SERVICES GROUP, INC.

FINANCIAL SUPPLEMENT

FOURTH QUARTER AND FULL YEAR 2007

(UNAUDITED)

THE PNC FINANCIAL SERVICES GROUP, INC.

FINANCIAL SUPPLEMENT

FOURTH QUARTER AND FULL YEAR 2007

(UNAUDITED)

The information contained in this Financial Supplement is preliminary, unaudited and based on data available on January 17, 2008. We have reclassified certain prior period amounts included in this Financial Supplement to be consistent with the current period presentation. This information speaks only as of the particular date or dates included in the schedules. We do not undertake any obligation to, and disclaim any duty to, correct or update any of the information provided in this Financial Supplement. Our future financial performance is subject to risks and uncertainties as described in our United States Securities and Exchange Commission (SEC) filings.

Additional Information About The PNC/Sterling Financial Corporation Transaction

The PNC Financial Services Group, Inc. and Sterling Financial Corporation will be filing a proxy statement/prospectus and other relevant documents concerning the merger with the United States Securities and Exchange Commission (the SEC). WE URGE INVESTORS TO READ THE PROXY STATEMENT/PROSPECTUS AND ANY OTHER DOCUMENTS TO BE FILED WITH THE SEC IN CONNECTION WITH THE MERGER OR INCORPORATED BY REFERENCE IN THE PROXY STATEMENT/PROSPECTUS BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.

Investors will be able to obtain these documents free of charge at the SEC s web site at http://www.sec.gov. In addition, documents filed with the SEC by The PNC Financial Services Group, Inc. will be available free of charge from Shareholder Relations at (800) 843-2206. Documents filed with the SEC by Sterling Financial Corporation will be available free of charge from Sterling Financial Corporation by contacting Shareholder Relations at (877) 248-6420.

The directors, executive officers, and certain other members of management and employees of Sterling Financial Corporation are participants in the solicitation of proxies in favor of the merger from the shareholders of Sterling Financial Corporation. Information about the directors and executive officers of Sterling Financial Corporation is included in the proxy statement for its May 8, 2007 annual meeting of shareholders, which was filed with the SEC on April 2, 2007. Additional information regarding the interests of such participants will be included in the proxy statement/prospectus and the other relevant documents filed with the SEC when they become available.

THE PNC FINANCIAL SERVICES GROUP, INC.

Yardville National Bancorp Acquisition

We completed our acquisition of Yardville National Bancorp (Yardville) on October 26, 2007 and our financial results include Yardville from that date. PNC issued approximately 3.4 million shares of PNC common stock and paid approximately $156 million in cash as consideration for the acquisition, and accounted for the transaction under the purchase method.

Mercantile Acquisition

We completed our acquisition of Mercantile Bankshares Corporation (Mercantile) on March 2, 2007 and our financial results include Mercantile from that date. PNC issued approximately 53 million shares of PNC common stock and paid approximately $2.1 billion in cash as consideration for the acquisition, and accounted for the transaction under the purchase method. PNC converted the Mercantile banks data onto PNC s financial and operational systems during September 2007.

BlackRock/MLIM Transaction

As further described in our Annual Report on Form 10-K for the year ended December 31, 2006, on September 29, 2006, Merrill Lynch contributed its investment management business (MLIM) to BlackRock, Inc. (BlackRock), formerly a majority-owned subsidiary of PNC, in exchange for 65 million shares of newly issued BlackRock common and preferred stock.

Our Consolidated Income Statement for the year ended December 31, 2006 reflects our former majority ownership interest in BlackRock for the first nine months of that year and our investment in BlackRock accounted for under the equity method for the fourth quarter of that year. Our Consolidated Income Statement for all other periods presented and our Consolidated Balance Sheet as of all dates included in this Financial Supplement reflect the September 29, 2006 deconsolidation of BlackRock s balance sheet amounts and recognize our approximate 34% ownership interest in BlackRock for those periods and as of those dates as an investment accounted for under the equity method.

We have also provided, for information purposes only, adjusted results in this Financial Supplement to reflect BlackRock as if it had also been accounted for under the equity method for the full year 2006.

THE PNC FINANCIAL SERVICES GROUP, INC.

Consolidated Income Statement (Unaudited)

In millions, except per share data	*Year ended* December 31 2007	December 31 2006	*Three months ended* December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Interest Income							
Loans	$ 4,232	$ 3,203	$ 1,123	$ 1,129	$ 1,084	$ 896	$ 821
Securities available for sale	1,429	1,049	398	366	355	310	280
Other	505	360	149	132	115	109	116
Total interest income	6,166	4,612	1,670	1,627	1,554	1,315	1,217
Interest Expense							
Deposits	2,053	1,590	522	531	532	468	450
Borrowed funds	1,198	777	355	335	284	224	201
Total interest expense	3,251	2,367	877	866	816	692	651
Net interest income	2,915	2,245	793	761	738	623	566
Provision for credit losses	315	124	188	65	54	8	42
Net interest income less provision for credit losses	2,600	2,121	605	696	684	615	524
Noninterest Income							
Asset management	784	1,420	225	204	190	165	149
Fund servicing	835	893	215	208	209	203	249
Service charges on deposits	348	313	90	89	92	77	79
Brokerage	278	246	69	71	72	66	63
Consumer services	414	365	110	106	107	91	93
Corporate services	713	626	180	198	176	159	177
Equity management gains	102	107	21	47	2	32	25
Net securities gains (losses)	(5)	(207)	(1)	(2)	1	(3)	
Trading	104	183	(10)	33	29	52	33
Net gains (losses) related to BlackRock	(127)	2,066	(128)	(50)	(1)	52	(12)
Other	344	315	63	86	98	97	113
Total noninterest income	3,790	6,327	834	990	975	991	969
Noninterest Expense							
Compensation	1,850	2,128	482	480	470	418	442
Employee benefits	290	304	71	73	74	72	55
Net occupancy	350	310	95	87	81	87	69
Equipment	311	303	84	77	79	71	69
Marketing	115	104	29	36	29	21	23
Other	1,380	1,294	452	346	307	275	311
Total noninterest expense	4,296	4,443	1,213	1,099	1,040	944	969
Income before minority interest and income taxes	2,094	4,005	226	587	619	662	524
Minority interest in income of BlackRock		47					
Income taxes	627	1,363	48	180	196	203	148

Net income	$ 1,467	$ 2,595	$ 178	$ 407	$ 423	$ 459	$ 376
Earnings Per Common Share							
Basic	$ 4.43	$ 8.89	$ .53	$ 1.21	$ 1.24	$ 1.49	$ 1.29
Diluted	$ 4.35	$ 8.73	$ .52	$ 1.19	$ 1.22	$ 1.46	$ 1.27
Average Common Shares Outstanding							
Basic	331	292	338	337	342	308	291
Diluted	335	297	341	340	346	312	295
Efficiency	64%	52%	75%	63%	61%	58%	63%
Noninterest income to total revenue	57%	74%	51%	57%	57%	61%	63%
Effective tax rate (a)	29.9%	34.0%	21.2%	30.7%	31.7%	30.7%	28.2%

(a) The effective tax rates are presented on a GAAP basis. The lower effective tax rate for the fourth quarter of 2007 was primarily due to lower pretax income in relation to tax credits and earnings that are not subject to tax. The higher effective tax rate for full year 2006 was primarily due to the third quarter 2006 gain on the BlackRock/MLIM transaction and a related $57 million cumulative adjustment to deferred taxes recorded in that quarter. The lower effective tax rate in the fourth quarter of 2006 was primarily due to a reduction in tax reserves for interest.

THE PNC FINANCIAL SERVICES GROUP, INC.

Adjusted Condensed Consolidated Income Statement (Unaudited) (a)

For the year ended - in millions	December 31 2007	December 31 2006
Net Interest Income		
Net interest income	$ 2,915	$ 2,235
Provision for credit losses	270	124
Net interest income less provision for credit losses	2,645	2,111
Noninterest Income		
Asset management	788	538
Other	3,133	3,034
Total noninterest income	3,921	3,572
Noninterest Expense		
Compensation and benefits	2,103	1,865
Other	2,009	1,722
Total noninterest expense	4,112	3,587
Income before income taxes	2,454	2,096
Income taxes	752	582
Net income	$ 1,702	$ 1,514

For the three months ended - in millions	December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Net Interest Income					
Net interest income	$ 793	$ 761	$ 738	$ 623	$ 566
Provision for credit losses	143	65	54	8	42
Net interest income less provision for credit losses	650	696	684	615	524
Noninterest Income					
Asset management	224	206	191	167	159
Other	737	836	786	774	832
Total noninterest income	961	1,042	977	941	991
Noninterest Expense					
Compensation and benefits	543	537	535	488	497
Other	553	521	490	445	472
Total noninterest expense	1,096	1,058	1,025	933	969
Income before income taxes	515	680	636	623	546
Income taxes	150	211	202	189	155

Net income	$ 365	$ 469	$ 434	$ 434	$ 391

(a) This schedule is provided for informational purposes only and reflects historical condensed consolidated financial information of PNC: (1) with amounts adjusted for the impact of certain specified items; (2) as if we had recorded our investment in BlackRock on the equity method for all periods presented; and (3) adjusted in each case, as appropriate, for the tax impact. See the Appendix to this Financial Supplement for reconciliations of these amounts to the corresponding GAAP amounts for each of the periods presented. We have provided these adjusted amounts and reconciliations so that investors, analysts, regulators and others will be better able to evaluate the impact of these items on our results for these periods, in addition to providing a basis of comparability for the impact of the BlackRock deconsolidation given the magnitude of the impact of the deconsolidation on various components of our income statement. Adjusted information supplements our results as reported in accordance with GAAP and should not be viewed in isolation from, or as a substitute for, our GAAP results.

THE PNC FINANCIAL SERVICES GROUP, INC.

Consolidated Balance Sheet (Unaudited)

In millions, except par value	December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Assets					
Cash and due from banks	$ 3,567	$ 3,318	$ 3,177	$ 3,234	$ 3,523
Federal funds sold and resale agreements	2,729	2,360	1,824	1,604	1,763
Other short-term investments, including trading securities	4,129	3,944	3,667	3,041	3,130
Loans held for sale	3,927	3,004	2,562	2,382	2,366
Securities available for sale	30,225	28,430	25,903	26,475	23,191
Loans, net of unearned income of $990, $986, $1,004, $1,005, and $795	68,319	65,760	64,714	62,925	50,105
Allowance for loan and lease losses	(830)	(717)	(703)	(690)	(560)
Net loans	67,489	65,043	64,011	62,235	49,545
Goodwill	8,405	7,836	7,745	7,739	3,402
Other intangible assets	1,146	1,099	913	929	641
Equity investments	6,045	5,975	5,584	5,408	5,330
Other	11,258	10,357	10,265	9,516	8,929
Total assets	$ 138,920	$ 131,366	$ 125,651	$ 122,563	$ 101,820
Liabilities					
Deposits					
Noninterest-bearing	$ 19,440	$ 18,570	$ 18,302	$ 18,191	$ 16,070
Interest-bearing	63,256	59,839	58,919	59,176	50,231
Total deposits	82,696	78,409	77,221	77,367	66,301
Borrowed funds					
Federal funds purchased	7,037	6,658	7,212	5,638	2,711
Repurchase agreements	2,737	1,990	2,805	2,586	2,051
Federal Home Loan Bank borrowings	7,065	4,772	104	111	42
Bank notes and senior debt	6,821	7,794	7,537	4,551	3,633
Subordinated debt	4,506	3,976	4,226	4,628	3,962
Other	2,765	2,263	2,632	2,942	2,629
Total borrowed funds	30,931	27,453	24,516	20,456	15,028
Allowance for unfunded loan commitments and letters of credit	134	127	125	121	120
Accrued expenses	4,330	4,077	3,663	3,864	3,970
Other	4,321	5,095	4,252	4,649	4,728
Total liabilities	122,412	115,161	109,777	106,457	90,147
Minority and noncontrolling interests in consolidated entities	1,654	1,666	1,370	1,367	885
Shareholders Equity					
Preferred stock (a)					
Common stock - $5 par value					
Authorized 800 shares, issued 353 shares	1,764	1,764	1,764	1,764	1,764
Capital surplus	2,618	2,631	2,606	2,520	1,651
Retained earnings	11,497	11,531	11,339	11,134	10,985
Accumulated other comprehensive loss	(147)	(255)	(439)	(162)	(235)
	(878)	(1,132)	(766)	(517)	(3,377)

Common stock held in treasury at cost: 12, 16, 11, 7, and 60 shares					
Total shareholders equity	14,854	14,539	14,504	14,739	10,788
Total liabilities, minority and noncontrolling interests, and shareholders equity	$ 138,920	$ 131,366	$ 125,651	$ 122,563	$ 101,820
Capital Ratios					
Tier 1 risk-based (b)	6.8%	7.5%	8.3%	8.6%	10.4%
Total risk-based (b)	10.3	10.9	11.8	12.2	13.5
Leverage (b)	6.2	6.8	7.3	8.7	9.3
Tangible common equity	4.7	5.2	5.5	5.8	7.4
Common shareholders equity to assets	10.7	11.1	11.5	12.0	10.6

(a) Less than $.5 million at each date.

(b) The ratios as of December 31, 2007 are estimated.

THE PNC FINANCIAL SERVICES GROUP, INC.

Summary of Business Segment Results (Unaudited)

	Year ended		*Three months ended*				
	December 31	**December 31**	**December 31**	**September 30**	**June 30**	**March 31**	**December 31**
In millions (a) (b)	**2007**	**2006**	**2007**	**2007**	**2007**	**2007**	**2006**
Earnings							
Retail Banking	$ 893	$ 765	$ 215	$ 250	$ 227	$ 201	$ 184
Corporate & Institutional Banking	432	454	91	87	122	132	126
PFPC	128	124	32	33	32	31	31
Other, including BlackRock (b)	14	1,252	(160)	37	42	95	35
Total consolidated net income	$ 1,467	$ 2,595	$ 178	$ 407	$ 423	$ 459	$ 376
Revenue (c)							
Retail Banking	$ 3,801	$ 3,125	$ 999	$ 985	$ 978	$ 839	$ 799
Corporate & Institutional Banking	1,538	1,455	399	388	381	370	390
PFPC (d)	831	762	214	209	208	200	194
Other, including BlackRock (b)	562	3,255	22	175	154	211	157
Total consolidated revenue	$ 6,732	$ 8,597	$ 1,634	$ 1,757	$ 1,721	$ 1,620	$ 1,540

(a) Our business information is presented based on our management accounting practices and our management structure. We refine our methodologies from time to time as our management accounting practices are enhanced and our businesses and management structure change.

(b) We consider BlackRock to be a separate reportable business segment but have combined its results with Other for this presentation. Our Annual Report on Form 10-K for the year ended December 31, 2007 will provide additional business segment disclosures for BlackRock. Generally, PNC s business segment earnings from BlackRock can be estimated by multiplying our approximately 33.5% ownership interest by BlackRock s reported GAAP earnings, less the additional income taxes recorded by PNC on those earnings. The effective tax rate on those earnings is typically different than PNC s consolidated effective tax rate due to the tax treatment of dividends received, if any, from BlackRock. PNC s effective tax rate on its earnings from BlackRock for the fourth quarter of 2007 and full year 2007 was approximately 25%.

(c) Business revenue is presented on a taxable-equivalent basis. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than a taxable investment. To provide more meaningful comparisons of yields and margins for all earning assets, we also provide revenue on a taxable-equivalent basis by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement. The following is a reconciliation of total consolidated revenue on a book (GAAP) basis to total consolidated revenue on a taxable-equivalent basis (in millions):

	Year ended		*Three months ended*				
	December 31 2007	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Total consolidated revenue, book (GAAP) basis	$ 6,705	$ 8,572	$ 1,627	$ 1,751	$ 1,713	$ 1,614	$ 1,535
Taxable-equivalent adjustment	27	25	7	6	8	6	5
Total consolidated revenue, taxable-equivalent basis	$ 6,732	$ 8,597	$ 1,634	$ 1,757	$ 1,721	$ 1,620	$ 1,540

(d) PFPC revenue represents the sum of servicing revenue and nonoperating income (expense) less debt financing costs. Prior period servicing revenue amounts have been reclassified to conform with the current period presentation.

	December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Period-end Employees					
Full-time employees:					
Retail Banking	12,036	11,753	11,804	11,838	9,549
Corporate & Institutional Banking	2,290	2,267	2,084	2,038	1,936
PFPC	4,784	4,504	4,522	4,400	4,381
Other					
Operations & Technology	4,379	4,243	4,501	4,493	3,909
Staff Services	1,991	2,044	2,115	2,059	1,680
Total Other	6,370	6,287	6,616	6,552	5,589
Total full-time employees	25,480	24,811	25,026	24,828	21,455
Total part-time employees	2,840	2,823	3,028	2,867	2,328
Total employees	28,320	27,634	28,054	27,695	23,783

The period-end employee statistics disclosed for each business reflect staff directly employed by the respective business and exclude operations, technology and staff services employees. Yardville employees are included in the Retail Banking, Corporate & Institutional Banking, and Other businesses at December 31, 2007. Mercantile employees are included in the Retail Banking, Corporate & Institutional Banking, and Other businesses at December 31, 2007, September 30, 2007, June 30, 2007 and March 31, 2007. PFPC employee statistics are provided on a legal entity basis.

THE PNC FINANCIAL SERVICES GROUP, INC.

Retail Banking (Unaudited)

Taxable-equivalent basis (a)	*Year ended*		*Three months ended*				
Dollars in millions	**December 31 2007**	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
INCOME STATEMENT							
Net interest income	$ 2,065	$ 1,678	$ 543	$ 535	$ 535	$ 452	$ 419
Noninterest income	1,736	1,447	456	450	443	387	380
Total revenue	3,801	3,125	999	985	978	839	799
Provision for credit losses	138	81	70	8	37	23	35
Noninterest expense	2,239	1,827	587	577	579	496	471
Pretax earnings	1,424	1,217	342	400	362	320	293
Income taxes	531	452	127	150	135	119	109
Earnings	$ 893	$ 765	$ 215	$ 250	$ 227	$ 201	$ 184
AVERAGE BALANCE SHEET							
Loans							
Consumer							
Home equity	$ 14,209	$ 13,813	$ 14,417	$ 14,296	$ 14,237	$ 13,881	$ 13,807
Indirect	1,897	1,052	2,031	2,033	2,036	1,480	1,133
Other consumer	1,597	1,248	1,688	1,610	1,596	1,490	1,322
Total consumer	17,703	16,113	18,136	17,939	17,869	16,851	16,262
Commercial	12,534	5,721	14,020	13,799	13,678	8,201	5,907
Floor plan	978	910	983	939	1,037	952	853
Residential mortgage	1,992	1,440	2,500	2,050	2,038	1,781	1,031
Other	230	242	225	230	235	233	234
Total loans	33,437	24,426	35,864	34,957	34,857	28,018	24,287
Goodwill and other intangible assets	5,061	1,581	5,792	5,703	5,737	2,942	1,574
Loans held for sale	1,564	1,607	1,572	1,567	1,554	1,562	1,505
Other assets	2,362	1,634	2,487	2,848	2,626	1,927	1,671
Total assets	$ 42,424	$ 29,248	$ 45,715	$ 45,075	$ 44,774	$ 34,449	$ 29,037
Deposits							
Noninterest-bearing demand	$ 10,513	$ 7,841	$ 10,967	$ 11,191	$ 11,065	$ 8,871	$ 7,834
Interest-bearing demand	8,876	7,906	9,173	8,869	9,097	8,354	7,865
Money market	16,786	14,750	17,328	17,020	17,100	15,669	14,822
Total transaction deposits	36,175	30,497	37,468	37,080	37,262	32,894	30,521
Savings	2,678	2,035	2,651	2,831	2,981	2,243	1,877
Certificates of deposit	16,637	13,861	16,768	16,502	17,531	15,738	14,694
Total deposits	55,490	46,393	56,887	56,413	57,774	50,875	47,092
Other liabilities	621	553	577	540	679	708	598
Capital	3,558	2,986	3,626	3,595	3,724	3,287	3,034
Total funds	$ 59,669	$ 49,932	$ 61,090	$ 60,548	$ 62,177	$ 54,870	$ 50,724

PERFORMANCE RATIOS							
Return on average capital	25%	26%	24%	28%	24%	25%	24%
Noninterest income to total revenue	46	46	46	46	45	46	48
Efficiency	59	58	59	59	59	59	59

(a) See notes (a) and (c) on page 5.

THE PNC FINANCIAL SERVICES GROUP, INC.

Retail Banking (Unaudited) (Continued)

Dollars in millions except as noted	*Year ended* December 31 2007	December 31 2006	*Three months ended* December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006
OTHER INFORMATION (a) (b)							
Credit-related statistics:							
Nonperforming assets			$ 225	$ 137	$ 140	$ 123	$ 106
Net charge-offs	$ 131	$ 85	$ 45	$ 34	$ 25	$ 27	$ 21
Annualized net charge-off ratio	.39%	.35%	.50%	.39%	.29%	.39%	.34%
Other statistics:							
Full-time employees			12,036	11,753	11,804	11,838	9,549
Part-time employees			2,309	2,248	2,360	2,224	1,829
ATMs			3,900	3,870	3,917	3,862	3,581
Branches (c)			1,109	1,072	1,084	1,077	852
Gains on sales of education loans (d)	$ 24	$ 33	$ 4	$ 12	$ 5	$ 3	$ 11
ASSETS UNDER ADMINISTRATION (in billions) (e)							
Assets under management							
Personal			$ 53	$ 57	$ 55	$ 54	$ 44
Institutional			20	20	22	22	10
Total			$ 73	$ 77	$ 77	$ 76	$ 54
Asset Type							
Equity			$ 42	$ 44	$ 43	$ 41	$ 34
Fixed income			18	20	20	20	12
Liquidity/Other			13	13	14	15	8
Total			$ 73	$ 77	$ 77	$ 76	$ 54
Nondiscretionary assets under administration							
Personal			$ 30	$ 31	$ 30	$ 31	$ 25
Institutional			83	81	81	80	61
Total			$ 113	$ 112	$ 111	$ 111	$ 86
Asset Type							
Equity			$ 49	$ 50	$ 47	$ 42	$ 33
Fixed income			28	27	28	28	24
Liquidity/Other			36	35	36	41	29
Total			$ 113	$ 112	$ 111	$ 111	$ 86

(a) Presented as of period-end, except for net charge-offs, annualized net charge-off ratio and gains on sales of education loans.

(b) Amounts subsequent to March 2, 2007 include the impact of Mercantile. Amounts subsequent to October 26, 2007 include the impact of Yardville.

(c) Excludes certain satellite branches that provide limited products and service hours.

(d) Included in Noninterest income on page 6.
(e) Excludes brokerage account assets.

THE PNC FINANCIAL SERVICES GROUP, INC.

Retail Banking (Unaudited) (Continued)

Dollars in millions except as noted	December 31 2007 (b)	September 30 2007	June 30 2007 (b)	March 31 2007 (b)	December 31 2006
OTHER INFORMATION (a) (b)					
Home equity portfolio credit statistics:					
% of first lien positions (c)	39%	39%	42%	43%	43%
Weighted average loan-to-value ratios (c)	73%	72%	70%	70%	70%
Weighted average FICO scores (d)	727	726	727	726	728
Loans 90 days past due	.37%	.30%	.26%	.25%	.24%
Checking-related statistics:					
Retail Banking checking relationships	2,272,000	2,275,000	1,967,000	1,962,000	1,954,000
Consumer DDA households using online banking	1,091,000	1,050,000	975,000	960,000	938,000
% of consumer DDA households using online banking	54%	52%	55%	54%	53%
Consumer DDA households using online bill payment	667,000	604,000	505,000	450,000	404,000
% of consumer DDA households using online bill payment	33%	30%	29%	25%	23%
Small business loans and managed deposits:					
Small business loans	$ 13,049	$ 13,157	$ 5,410	$ 5,284	$ 5,116
Managed deposits:					
On-balance sheet					
Noninterest-bearing demand	$ 5,994	$ 6,119	$ 4,250	$ 4,284	$ 4,383
Interest-bearing demand	1,873	2,027	1,505	1,517	1,649
Money market	3,152	3,389	2,595	2,635	2,592
Certificates of deposit	1,068	1,070	584	681	802
Off-balance sheet (e)					
Small business sweep checking	2,780	2,823	1,933	1,827	1,733
Total managed deposits	$ 14,867	$ 15,428	$ 10,867	$ 10,944	$ 11,159
Brokerage statistics:					
Margin loans	$ 151	$ 161	$ 162	$ 166	$ 163
Financial consultants (f)	769	765	767	757	758
Full service brokerage offices	100	100	99	99	99
Brokerage account assets (billions)	$ 48	$ 49	$ 47	$ 46	$ 46

(a) Presented as of period-end.

(b) This information excludes the impact of acquisitions between PNC s acquisition date and the date of conversion of the acquired companies data onto PNC s financial and operational systems because such information was not available prior to the conversion date. Therefore, information presented above as of June 30, 2007 and March 31, 2007 excludes the impact of Mercantile, which PNC acquired effective March 2, 2007 and converted during September 2007. Similarly, information presented above as of December 31, 2007 (except Brokerage statistics) excludes the impact of Yardville, which PNC acquired effective October 26, 2007 and expects to convert during March 2008.

(c) Includes loans from acquired portfolios for which lien position and loan-to-value information was limited.

(d) Represents the most recent FICO scores we have on file.

(e) Represents small business balances. These balances are swept into liquidity products managed by other PNC business segments, the majority of which are off-balance sheet.

(f) Financial consultants provide services in full service brokerage offices and PNC traditional branches.

THE PNC FINANCIAL SERVICES GROUP, INC.

Corporate & Institutional Banking (Unaudited)

Taxable-equivalent basis (a)	*Year ended*		*Three months ended*				
Dollars in millions except as noted	**December 31 2007**	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
INCOME STATEMENT							
Net interest income	$ 818	$ 703	$ 237	$ 204	$ 194	$ 183	$ 186
Noninterest income							
Corporate service fees	564	526	137	161	139	127	149
Other (b)	156	226	25	23	48	60	55
Noninterest income	720	752	162	184	187	187	204
Total revenue	1,538	1,455	399	388	381	370	390
Provision for (recoveries of) credit losses	125	42	69	55	17	(16)	6
Noninterest expense	818	746	222	211	192	193	199
Pretax earnings	595	667	108	122	172	193	185
Income taxes	163	213	17	35	50	61	59
Earnings	$ 432	$ 454	$ 91	$ 87	$ 122	$ 132	$ 126
AVERAGE BALANCE SHEET							
Loans							
Corporate (c)	$ 9,519	$ 8,633	$ 10,254	$ 9,625	$ 9,274	$ 8,909	$ 8,885
Commercial real estate	3,590	2,876	3,956	3,576	3,555	3,253	3,143
Commercial - real estate related	3,580	2,433	4,065	3,746	3,736	2,733	2,189
Asset-based lending	4,634	4,467	4,795	4,647	4,562	4,513	4,594
Total loans (c)	21,323	18,409	23,070	21,594	21,127	19,408	18,811
Goodwill and other intangible assets	1,919	1,352	2,232	2,085	1,837	1,544	1,399
Loans held for sale	1,319	893	1,781	1,207	982	1,302	965
Other assets	4,491	4,168	4,641	4,544	4,531	4,244	4,550
Total assets	$ 29,052	$ 24,822	$ 31,724	$ 29,430	$ 28,477	$ 26,498	$ 25,725
Deposits							
Noninterest-bearing demand	$ 7,301	$ 6,771	$ 7,851	$ 7,238	$ 6,953	$ 7,083	$ 7,210
Money market	4,784	2,654	4,995	4,960	4,653	4,530	3,644
Other	1,325	907	1,818	1,436	1,113	926	921
Total deposits	13,410	10,332	14,664	13,634	12,719	12,539	11,775
Other liabilities	3,347	2,863	4,452	3,109	2,960	2,850	3,093
Capital	2,152	1,838	2,357	2,132	2,050	2,064	1,935
Total funds	$ 18,909	$ 15,033	$ 21,473	$ 18,875	$ 17,729	$ 17,453	$ 16,803
PERFORMANCE RATIOS							
Return on average capital	20%	25%	15%	16%	24%	26%	26%
Noninterest income to total revenue	47	52	41	47	49	51	52
Efficiency	53	51	56	54	50	52	51

COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)							
Beginning of period	$ 200	$ 136	$ 244	$ 222	$ 206	$ 200	$ 180
Acquisitions/additions	88	102	8	36	28	16	33
Repayments/transfers	(45)	(38)	(9)	(14)	(12)	(10)	(13)
End of period (d)	$ 243	$ 200	$ 243	$ 244	$ 222	$ 206	$ 200
OTHER INFORMATION							
Consolidated revenue from: (e)							
Treasury Management	$ 476	$ 418	$ 131	$ 121	$ 114	$ 110	$ 107
Capital Markets	$ 290	$ 283	$ 74	$ 73	$ 76	$ 67	$ 79
Midland Loan Services	$ 220	$ 184	$ 51	$ 59	$ 56	$ 54	$ 53
Total loans (f)			$ 23,861	$ 22,455	$ 21,662	$ 21,193	$ 18,957
Nonperforming assets (f)			$ 243	$ 141	$ 100	$ 77	$ 63
Net charge-offs	$ 70	$ 54	$ 39	$ 15	$ 7	$ 9	$ 24
Full-time employees (f)			2,290	2,267	2,084	2,038	1,936
Net gains on commercial mortgage loan sales (d)	$ 39	$ 55	$ 10	$ 5	$ 9	$ 15	$ 18
Valuation adjustment on commercial mortgage loans held for sale	$ (26)		$ (26)				
Net carrying amount of commercial mortgage servicing rights (d) (f)			$ 694	$ 708	$ 493	$ 487	$ 471

(a) See notes (a) and (c) on page 5.
(b) Amounts for fourth quarter and full year 2007 include a $26 million of negative valuation adjustment on our commercial mortgage loans held for sale.
(c) Includes lease financing.
(d) Amounts at December 31, 2007 and September 30, 2007 include the impact of the July 2, 2007 acquisition of ARCS Commercial Mortgage.
(e) Represents consolidated PNC amounts.
(f) Presented as of period end.

THE PNC FINANCIAL SERVICES GROUP, INC.

PFPC (Unaudited) (a)

Dollars in millions except as noted	*Year ended* **December 31 2007**	**December 31 2006**	*Three months ended* **December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
INCOME STATEMENT							
Servicing revenue (b)	$ 863	$ 800	$ 223	$ 216	$ 216	$ 208	$ 203
Operating expense (b)	637	586	167	159	158	153	146
Operating income	226	214	56	57	58	55	57
Debt financing	38	42	10	9	9	10	10
Nonoperating income (c)	6	4	1	2	1	2	1
Pretax earnings	194	176	47	50	50	47	48
Income taxes	66	52	15	17	18	16	17
Earnings	$ 128	$ 124	$ 32	$ 33	$ 32	$ 31	$ 31
PERIOD-END BALANCE SHEET							
Goodwill and other intangible assets			$ 1,315	$ 1,002	$ 1,005	$ 1,008	$ 1,012
Other assets			1,161	1,169	1,395	1,370	1,192
Total assets			$ 2,476	$ 2,171	$ 2,400	$ 2,378	$ 2,204
Debt financing			$ 989	$ 702	$ 734	$ 760	$ 792
Other liabilities			865	878	1,109	1,091	917
Shareholder s equity			622	591	557	527	495
Total funds			$ 2,476	$ 2,171	$ 2,400	$ 2,378	$ 2,204
PERFORMANCE RATIOS							
Return on average equity	23%	29%	21%	23%	24%	25%	26%
Operating margin (d)	26	27	25	26	27	26	28
SERVICING STATISTICS (at period end)							
Accounting/administration net fund assets *(in billions)(e)*							
Domestic			$ 869	$ 806	$ 765	$ 731	$ 746
Offshore			121	116	103	91	91
Total			$ 990	$ 922	$ 868	$ 822	$ 837
Asset type (in billions)(e)							
Money market			$ 373	$ 328	$ 286	$ 280	$ 281
Equity			390	377	373	352	354
Fixed income			123	117	118	111	117
Other			104	100	91	79	85
Total			$ 990	$ 922	$ 868	$ 822	$ 837
Custody fund assets *(in billions)*			$ 500	$ 497	$ 467	$ 435	$ 427

Shareholder accounts *(in millions)*					
Transfer agency	19	19	20	18	18
Subaccounting	53	51	50	50	50
Total	72	70	70	68	68
OTHER INFORMATION					
Period-end full-time employees	4,784	4,504	4,522	4,400	4,381

(a) See note (a) on page 5.

(b) Certain out-of-pocket expense items which are then client billable are included in both servicing revenue and operating expense above, but offset each other entirely and therefore have no net effect on operating income. Distribution revenue and expenses which relate to 12b-1 fees that PFPC receives from certain fund clients for the payment of marketing, sales and service expenses also entirely offset each other, but are netted for presentation purposes above. Amounts for 2006 periods have been reclassified to conform with the current period presentation.

(c) Net of nonoperating expense.

(d) Total operating income divided by servicing revenue.

(e) Includes alternative investment net assets serviced.

THE PNC FINANCIAL SERVICES GROUP, INC.

Efficiency Ratio (Unaudited)

	Year ended		*Three months ended*				
	December 31 2007	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Efficiency, as reported (a)	64%	52%	75%	63%	61%	58%	63%
Efficiency, as adjusted (b)	60%	62%	62%	59%	60%	60%	62%

(a) Calculated as noninterest expense divided by the sum of net interest income and noninterest income on the Consolidated Income Statement.

(b) Calculated as PNC s efficiency ratio adjusted: (1) for the impact of certain specified items; (2) as if we had recorded our investment in BlackRock on the equity method for all periods presented; and (3) in each case, as appropriate, adjusted for the tax impact. We have provided these adjusted amounts and reconciliations so that shareholders, investor analysts, regulators and others will be better able to evaluate the impact of these items on our as reported efficiency ratio for these periods, in addition to providing a basis of comparability for the impact of the BlackRock deconsolidation. Amounts used for these adjusted ratios are reconciled to amounts used in the PNC efficiency ratio as reported (GAAP basis) below.

	Year ended		*Three months ended*				
Dollars in millions	**December 31 2007**	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Reconciliation of GAAP amounts with amounts used in the calculation of the adjusted efficiency ratio:							
GAAP basis net interest income	$ 2,915	$ 2,245	$ 793	$ 761	$ 738	$ 623	$ 566
Adjustment to net interest income: BlackRock equity method (c)		(10)					
Adjusted net interest income	$ 2,915	$ 2,235	$ 793	$ 761	$ 738	$ 623	$ 566
GAAP basis noninterest income	$ 3,790	$ 6,327	$ 834	$ 990	$ 975	$ 991	$ 969
Adjustments (c) :							
Gain on BlackRock/MLIM transaction		(2,078)					
Securities portfolio rebalancing loss		196					
Mortgage loan portfolio repositioning loss		48					
Integration costs	4	10	(1)	2	1	2	10
BlackRock LTIP	127	12	128	50	1	(52)	12
BlackRock equity method		(943)					
Adjusted noninterest income	$ 3,921	$ 3,572	$ 961	$ 1,042	$ 977	$ 941	$ 991
Adjusted total revenue	$ 6,836	$ 5,807	$ 1,754	$ 1,803	$ 1,715	$ 1,564	$ 1,557
GAAP basis noninterest expense	$ 4,296	$ 4,443	$ 1,213	$ 1,099	$ 1,040	$ 944	$ 969
Adjustments (c):							
Integration costs	(102)	(91)	(35)	(41)	(15)	(11)	
Visa indemnification	(82)		(82)				
BlackRock equity method		(765)					

Adjusted noninterest expense	$ 4,112	$ 3,587	$ 1,096	$ 1,058	$ 1,025	$ 933	$ 969
Adjusted efficiency ratio	**60%**	**62%**	**62%**	**59%**	**60%**	**60%**	**62%**

(c) See the Appendix to this Financial Supplement.

THE PNC FINANCIAL SERVICES GROUP, INC.

Details of Net Interest Income, Net Interest Margin, and Trading Revenue (Unaudited)

	Year ended		*Three months ended*				
In millions	**December 31 2007**	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Net Interest Income							
Interest income, taxable equivalent basis							
Loans	$ 4,248	$ 3,216	$ 1,127	$ 1,134	$ 1,088	$ 899	$ 824
Securities available for sale	1,431	1,050	398	368	355	310	279
Other	514	371	152	131	119	112	119
Total interest income	6,193	4,637	1,677	1,633	1,562	1,321	1,222
Interest expense							
Deposits	2,053	1,590	522	531	532	468	450
Borrowed funds	1,198	777	355	335	284	224	201
Total interest expense	3,251	2,367	877	866	816	692	651
Net interest income, taxable-equivalent basis	2,942	2,270	800	767	746	629	571
Less: Taxable-equivalent adjustment	27	25	7	6	8	6	5
Net interest income, GAAP basis	$ 2,915	$ 2,245	$ 793	$ 761	$ 738	$ 623	$ 566

	Year ended		Three months ended				
	December 31 2007	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Net Interest Margin							
Average yields/rates							
Yield on interest-earning assets							
Loans	6.80%	6.49%	6.62%	6.89%	6.81%	6.68%	6.63%
Securities available for sale	5.39	4.93	5.46	5.42	5.37	5.31	5.27
Other	5.70	5.45	5.51	5.56	5.94	5.83	5.56
Total yield on interest-earning assets	6.32	5.97	6.19	6.37	6.35	6.23	6.15
Rate on interest-bearing liabilities							
Deposits	3.47	3.25	3.31	3.49	3.52	3.52	3.54
Borrowed funds	5.20	5.17	4.88	5.22	5.28	5.33	5.39
Total rate on interest-bearing liabilities	3.95	3.70	3.81	3.99	3.98	3.95	3.97
Interest rate spread	2.37	2.27	2.38	2.38	2.37	2.28	2.18
Impact of noninterest-bearing sources	.63	.65	.58	.62	.66	.67	.70
Net interest margin	3.00%	2.92%	2.96%	3.00%	3.03%	2.95%	2.88%

	Year ended		*Three months ended*				
In millions	**December 31 2007**	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Trading Revenue (a)							
Net interest income (expense)	$ 7	$ (6)	$ 7	$ (1)	$ 1		$ (2)
Noninterest income	104	183	(10)	33	29	$ 52	33

Total trading revenue	$	111	$	177	$	(3)	$	32	$	30	$	52	$	31
Securities underwriting and trading (b)	$	41	$	38	$	10	$	14	$	8	$	9	$	11
Foreign exchange		58		55		16		15		13		14		13
Financial derivatives		12		84		(29)		3		9		29		7
Total trading revenue	$	111	$	177	$	(3)	$	32	$	30	$	52	$	31

(a) See pages 13-14 for disclosure of average trading assets and liabilities.

(b) Includes changes in fair value for certain loans accounted for at fair value. See page 13 for disclosure of average loans at fair value.

THE PNC FINANCIAL SERVICES GROUP, INC.

Average Consolidated Balance Sheet (Unaudited)

	Year ended		*Three months ended*				
In millions	**December 31 2007**	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Assets							
Interest-earning assets:							
Securities available for sale							
Residential mortgage-backed	$ 19,163	$ 14,881	$ 20,592	$ 19,541	$ 19,280	$ 17,198	$ 16,082
Commercial mortgage-backed	4,025	2,305	4,921	4,177	3,646	3,338	2,640
Asset-backed	2,394	1,312	2,704	2,454	2,531	1,876	1,561
U.S. Treasury and government agencies	293	2,334	155	281	344	394	441
State and municipal	227	148	306	233	203	162	140
Other debt	47	89	52	25	33	79	89
Corporate stocks and other	392	246	458	381	383	347	277
Total securities available for sale	26,541	21,315	29,188	27,092	26,420	23,394	21,230
Loans, net of unearned income							
Commercial	25,509	20,201	27,528	26,352	25,845	21,479	20,458
Commercial real estate	7,671	3,212	8,919	8,272	8,320	5,478	3,483
Lease financing	2,559	2,777	2,552	2,581	2,566	2,534	2,789
Consumer	17,718	16,125	18,150	17,954	17,886	16,865	16,272
Residential mortgage	8,564	6,888	9,605	9,325	8,527	7,173	5,606
Other	432	363	400	393	411	527	385
Total loans, net of unearned income	62,453	49,566	67,154	64,877	63,555	54,056	48,993
Loans held for sale	2,955	2,683	3,408	2,842	2,611	2,955	3,167
Federal funds sold and resale agreements	2,152	1,143	2,516	2,163	1,832	2,092	2,049
Other	3,909	2,985	4,926	4,342	3,606	2,735	3,198
Total interest-earning assets	98,010	77,692	107,192	101,316	98,024	85,232	78,637
Noninterest-earning assets:							
Allowance for loan and lease losses	(690)	(591)	(749)	(708)	(692)	(612)	(557)
Cash and due from banks	3,018	3,121	3,089	3,047	2,991	2,945	2,999
Other	23,080	14,790	25,418	23,977	22,997	19,857	17,969
Total assets	$ 123,418	$ 95,012	$ 134,950	$ 127,632	$ 123,320	$ 107,422	$ 99,048
Supplemental Average Balance Sheet Information (Unaudited)							
Trading Assets							
Securities (a)	$ 2,708	$ 1,712	$ 3,486	$ 3,293	$ 2,144	$ 1,569	$ 2,111
Resale agreements (b)	1,133	623	1,320	1,267	1,247	820	1,247
Financial derivatives (c)	1,378	1,148	1,785	1,389	1,221	1,115	1,209
Loans at fair value (c)	166	128	148	164	161	193	172
Total trading assets	$ 5,385	$ 3,611	$ 6,739	$ 6,113	$ 4,773	$ 3,697	$ 4,739

(a) Included in Interest-earning assets-Other above.
(b) Included in Federal funds sold and resale agreements above.
(c) Included in Noninterest-earning assets-Other above.

THE PNC FINANCIAL SERVICES GROUP, INC.

Average Consolidated Balance Sheet (Unaudited) (Continued)

	Year ended		*Three months ended*				
In millions	**December 31 2007**	**December 31 2006**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Liabilities, Minority and Noncontrolling Interests, and Shareholders Equity							
Interest-bearing liabilities:							
Interest-bearing deposits							
Money market	$ 23,840	$ 19,745	$ 24,697	$ 24,151	$ 23,979	$ 22,503	$ 20,879
Demand	9,259	8,187	9,587	9,275	9,494	8,671	8,143
Savings	2,687	2,081	2,662	2,841	2,988	2,250	1,882
Retail certificates of deposit	16,690	13,999	16,921	16,563	17,426	15,691	14,837
Other time	2,119	1,364	1,948	2,748	2,297	1,623	1,355
Time deposits in foreign offices	4,623	3,613	6,488	4,616	4,220	3,129	3,068
Total interest-bearing deposits	59,218	48,989	62,303	60,194	60,404	53,867	50,164
Borrowed funds							
Federal funds purchased	5,533	3,081	5,232	6,249	6,102	4,533	3,167
Repurchase agreements	2,450	2,205	2,875	2,546	2,507	1,858	2,264
Federal Home Loan Bank borrowings	2,168	623	6,339	2,097	106	64	44
Bank notes and senior debt	6,282	3,128	7,676	7,537	5,681	4,182	2,757
Subordinated debt	4,247	4,417	4,118	4,039	4,466	4,370	4,361
Other	2,344	1,589	2,353	2,741	2,459	1,813	2,117
Total borrowed funds	23,024	15,043	28,593	25,209	21,321	16,820	14,710
Total interest-bearing liabilities	82,242	64,032	90,896	85,403	81,725	70,687	64,874
Noninterest-bearing liabilities, minority and noncontrolling interests, and shareholders equity:							
Demand and other noninterest-bearing deposits	17,587	14,320	18,472	18,211	17,824	15,807	14,827
Allowance for unfunded loan commitments and letters of credit	125	106	127	125	121	126	117
Accrued expenses and other liabilities	8,195	6,672	9,035	8,117	7,655	7,961	7,882
Minority and noncontrolling interests in consolidated entities	1,335	600	1,658	1,414	1,367	893	542
Shareholders equity	13,934	9,282	14,762	14,362	14,628	11,948	10,806
Total liabilities, minority and noncontrolling interests, and shareholders equity	$ 123,418	$ 95,012	$ 134,950	$ 127,632	$ 123,320	$ 107,422	$ 99,048
Supplemental Average Balance Sheet Information (Unaudited) (Continued)							
Deposits and Common Shareholders Equity							
Interest-bearing deposits	$ 59,218	$ 48,989	$ 62,303	$ 60,194	$ 60,404	$ 53,867	$ 50,164
Demand and other noninterest-bearing deposits	17,587	14,320	18,472	18,211	17,824	15,807	14,827
Total deposits	$ 76,805	$ 63,309	$ 80,775	$ 78,405	$ 78,228	$ 69,674	$ 64,991
Transaction deposits	$ 50,686	$ 42,252	$ 52,756	$ 51,637	$ 51,297	$ 46,981	$ 43,849
Common shareholders equity	$ 13,927	$ 9,275	$ 14,755	$ 14,355	$ 14,621	$ 11,941	$ 10,799
Trading Liabilities							
Securities sold short (a)	$ 1,657	$ 965	$ 1,748	$ 1,960	$ 1,431	$ 1,264	$ 1,553

Repurchase agreements and other borrowings (b)	520	833	630	637	669	363	1,096
Financial derivatives (c)	1,384	1,103	1,772	1,400	1,230	1,126	1,156
Borrowings at fair value (c)	39	31	39	41	40	39	34
Total trading liabilities	$ 3,600	$ 2,932	$ 4,189	$ 4,038	$ 3,370	$ 2,792	$ 3,839

(a) Included in Borrowed funds-Other above.

(b) Included in Borrowed funds-Repurchase agreements and Borrowed funds-Other above.

(c) Included in Accrued expenses and other liabilities above.

THE PNC FINANCIAL SERVICES GROUP, INC.

Details of Loans (Unaudited)

Period ended - in millions	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Commercial					
Retail/wholesale	$ 6,653	$ 6,181	$ 6,031	$ 6,075	$ 5,301
Manufacturing	4,563	4,472	4,439	4,490	4,189
Other service providers	3,014	3,292	3,212	3,113	2,186
Real estate related (a)	5,730	4,502	4,939	4,869	2,825
Financial services	1,226	1,861	1,545	1,560	1,324
Health care	1,260	1,075	1,097	1,028	707
Other	6,161	5,352	4,681	4,603	4,052
Total commercial	28,607	26,735	25,944	25,738	20,584
Commercial real estate					
Real estate projects	6,114	5,807	5,767	5,756	2,716
Mortgage	2,792	2,507	2,564	2,597	816
Total commercial real estate	8,906	8,314	8,331	8,353	3,532
Equipment lease financing	3,500	3,539	3,587	3,527	3,556
Total commercial lending	41,013	38,588	37,862	37,618	27,672
Consumer					
Home equity	14,447	14,366	14,268	14,263	13,749
Automobile	1,513	1,521	1,962	1,956	1,135
Other	2,366	2,270	1,804	1,769	1,631
Total consumer	18,326	18,157	18,034	17,988	16,515
Residential mortgage	9,557	9,605	9,440	7,960	6,337
Other	413	396	382	364	376
Unearned income	(990)	(986)	(1,004)	(1,005)	(795)
Total, net of unearned income	$ 68,319	$ 65,760	$ 64,714	$ 62,925	$ 50,105

(a) Includes loans related to customers in the real estate, rental, leasing and construction industries.

THE PNC FINANCIAL SERVICES GROUP, INC.

Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit, and Net Unfunded Commitments
(Unaudited)

Change in Allowance for Loan and Lease Losses

Three months ended - in millions	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Beginning balance	$ 717	$ 703	$ 690	$ 560	$ 566
Charge-offs					
Commercial	(60)	(38)	(27)	(31)	(23)
Commercial real estate	(12)	(3)	(1)		(1)
Equipment lease financing					(14)
Consumer	(24)	(17)	(15)	(17)	(15)
Residential mortgage					(1)
Total charge-offs	(96)	(58)	(43)	(48)	(54)
Recoveries					
Commercial	10	5	8	7	3
Commercial real estate			1		1
Equipment lease financing					1
Consumer	3	4	2	5	4
Total recoveries	13	9	11	12	9
Net charge-offs					
Commercial	(50)	(33)	(19)	(24)	(20)
Commercial real estate	(12)	(3)			
Equipment lease financing					(13)
Consumer	(21)	(13)	(13)	(12)	(11)
Residential mortgage					(1)
Total net charge-offs	(83)	(49)	(32)	(36)	(45)
Provision for credit losses	188	65	54	8	42
Acquired allowance (a)	15		(5)	142	
Net change in allowance for unfunded loan commitments and letters of credit	(7)	(2)	(4)	16	(3)
Ending balance	$ 830	$ 717	$ 703	$ 690	$ 560

(a) Amount for the fourth quarter of 2007 related to Yardville and amounts for the first and second quarters of 2007 related to Mercantile.

Supplemental Information					
Commercial lending net charge-offs (b)	$ (62)	$ (36)	$ (19)	$ (24)	$ (33)
Consumer lending net charge-offs (c)	(21)	(13)	(13)	(12)	(12)
Total net charge-offs	$ (83)	$ (49)	$ (32)	$ (36)	$ (45)
Net charge-offs to average loans					
Commercial lending	.63%	.38%	.21%	.33%	.49%
Consumer lending	.30	.19	.20	.20	.22

(b) Includes commercial, commercial real estate and equipment lease financing.
(c) Includes consumer and residential mortgage.

Change in Allowance for Unfunded Loan Commitments and Letters of Credit

Three months ended - in millions	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Beginning balance	$ 127	$ 125	$ 121	$ 120	$ 117
Acquired allowance - Mercantile				17	
Net change in allowance for unfunded loan commitments and letters of credit	7	2	4	(16)	3
Ending balance	$ 134	$ 127	$ 125	$ 121	$ 120

In millions	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**	**December 31 2006**
Net Unfunded Commitments					
Net unfunded commitments	$ 53,365	$ 52,590	$ 50,678	$ 49,263	$ 44,835

THE PNC FINANCIAL SERVICES GROUP, INC.

Details of Nonperforming Assets (Unaudited)

Nonperforming Assets by Type

Period ended - in millions	December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Nonaccrual loans					
Commercial	$ 193	$ 144	$ 126	$ 121	$ 109
Commercial real estate	212	75	62	25	12
Consumer	17	15	14	14	13
Residential mortgage	10	10	14	16	12
Equipment lease financing	3	3	2	2	1
Total nonaccrual loans	435	247	218	178	147
Restructured loans	2				
Total nonperforming loans	437	247	218	178	147
Foreclosed and other assets					
Residential mortgage	16	16	12	11	10
Equipment lease financing	11	12	12	12	12
Other	14	11	4	3	2
Total foreclosed and other assets	41	39	28	26	24
Total nonperforming assets (a) (b)	$ 478	$ 286	$ 246	$ 204	$ 171
Nonperforming loans to total loans	.64%	.38%	.34%	.28%	.29%
Nonperforming assets to total loans and foreclosed assets	.70	.43	.38	.32	.34
Nonperforming assets to total assets	.34	.22	.20	.17	.17
Net charge-offs to average loans (For the three months ended)	.49	.30	.20	.27	.36
Allowance for loan and lease losses to loans	1.21	1.09	1.09	1.10	1.12
Allowance for loan and lease losses to nonperforming loans	190	290	322	388	381
(a) Excludes equity management assets carried at estimated fair value (amounts include troubled debt restructured assets of $4 million at September 30, 2007, June 30, 2007, March 31, 2007 and December 31, 2006):	$ 4	$ 12	$ 13	$ 15	$ 11
(b) Excludes loans held for sale carried at lower of cost or market value, related to the Mercantile and Yardville acquisitions:	$ 25	$ 7	$ 17	$ 18	

Change in Nonperforming Assets

In millions	Year ended
January 1, 2007	$ 171
Transferred in	649
Acquired - Mercantile and Yardville	37
Asset sales	(10)
Returned to performing	(23)
Charge-offs and valuation adjustments	(167)

Principal activity including payoffs		(179)
December 31, 2007	$	478

THE PNC FINANCIAL SERVICES GROUP, INC.

Details of Nonperforming Assets (Unaudited) (Continued)

Nonperforming Assets by Business

Period ended - in millions	December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Retail Banking					
Nonperforming loans	$ 215	$ 127	$ 130	$ 114	$ 96
Foreclosed and other assets	10	10	10	9	10
Total	$ 225	$ 137	$ 140	$ 123	$ 106
Corporate & Institutional Banking					
Nonperforming loans	$ 222	$ 119	$ 87	$ 64	$ 50
Foreclosed and other assets	21	22	13	13	13
Total	$ 243	$ 141	$ 100	$ 77	$ 63
Other (a)					
Nonperforming loans		$ 1	$ 1		$ 1
Foreclosed and other assets	$ 10	7	5	$ 4	1
Total	$ 10	$ 8	$ 6	$ 4	$ 2
Consolidated Totals< New Roman" style="font-size:1.0pt;">			(41,012)		
Other income (expense), net			937		
Net loss			$ (3,944)		

The direct segment includes revenues, direct costs, and allocations associated with sales fulfilled from the Company s warehouses. Costs for this segment include product costs and outbound freight, warehousing and fulfillment costs, credit card fees and customer service costs.

The fulfillment partner segment includes revenues, direct costs and cost allocations associated with the Company s third-party fulfillment partner sales and are earned from selling the merchandise of third parties over the Company s Website. The costs for this segment include product costs and fulfillment costs, credit card fees and internal customer service costs.

Assets have not been allocated between the segments for management purposes and, as such, they are not presented here.

For the three months ended March 31, 2008 and 2009, over 99% of sales were made to customers in the United States of America. At December 31, 2008 and March 31, 2009, all of the Company s fixed assets were located in the United States of America.

15. RELATED-PARTY TRANSACTIONS

On April 1, 2009, Mr. James V. Joyce resigned from his position as a member of the Board of Directors of the Company. Mr. Joyce s resignation is not the result of a disagreement with the Company on any matter relating to the Company s operations, policies or practices. Mr. Joyce and the Company concurrently ended the Company s consulting arrangement with Icent LLC, which is a management consulting company of which Mr. Joyce is the chief executive officer, and through which Mr. Joyce provided consulting services to the Company. In connection with the termination of the consulting arrangement, the Company accrued $1.25 million, which was paid to Mr. Joyce on April 1, 2009.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (RESTATED)

Special Note Regarding Forward-Looking Statements

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements. These statements relate to our, and in some cases our customers or other third parties , future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements include, but are not limited to, statements regarding the following: our beliefs and expectations regarding the seasonality of our direct and fulfillment partner revenue; our beliefs regarding the sufficiency of our capital resources; planned distribution and order fulfillment capabilities; our beliefs, intentions and expectations regarding improvements of our order processing systems and capabilities; our intentions regarding the development of enhanced technologies and features; our intentions regarding the expansion of our customer service capabilities; our belief and intentions regarding improvements to our general and administrative functions; our beliefs and intentions regarding enhancements to our sales and marketing activities; our beliefs regarding the potential for growth in our customer base; our beliefs and intentions regarding our expansion into new markets, including international markets; our beliefs and intentions about entering into agreements to provide products and services to other businesses; our beliefs, intentions and expectations regarding promotion of new or complimentary product and sales formats; our beliefs, intentions and expectations regarding the expansion of our product and service offerings; our beliefs and intentions regarding expanding our market presence through relationships with third parties; our beliefs regarding the pursuit of complementary businesses and technologies; our beliefs regarding the adequacy of our insurance coverage; our beliefs, intentions and expectations regarding litigation matters and legal proceedings, our defenses to such matters and our contesting of such matters; our beliefs and expectations regarding our existing cash and cash equivalents, cash requirements and sufficiency of capital; our beliefs and expectations regarding interest rate risk, our investment activities and the effect of changes in interest rates; our expectation that we will move our corporate headquarters into our new warehouse location; our belief that we have completed the turnaround plan that we began well over a year ago; our intention to expand product selection and our fulfillment partner business; and our expectations regarding future depreciation expense and other future expenses.

These forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ materially for a variety of reasons, including, among others, changes in global economic conditions and consumer spending, world events, the rate of growth of the Internet and online commerce, the amount that we invest in new business opportunities and the timing of those investments, the mix of products sold to customers, the mix of net sales derived from products as compared with services, the extent to which we owe income and other taxes, competition, management of growth, potential fluctuations in operating results, international growth and expansion, fluctuations in foreign exchange rates, the outcomes of legal proceedings and claims, fulfillment center optimization, risks of inventory management, seasonality, the degree to which we enter into, maintain, and develop commercial agreements, acquisitions, and strategic transactions, payments risks, and risks of fulfillment throughput and productivity. In addition, the current global economic climate amplifies many of these risks. Descriptions of the material risks we face and additional information regarding factors that could materially affect results and the accuracy of the forward-looking statements contained herein may be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

These forward-looking statements speak only as of the date of this report and, except as required by law, we undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report.

Restatement

On January 29, 2010, the Audit Committee of the Board of Directors of the Company concluded, based on management s recommendation, that we would restate (1) our consolidated financial statements as of and for the year ended December 31, 2008 (however, only the restatement of the balance sheet is presented herein) and (2) our consolidated financial statements as of and for the three months ended March 31, 2008 and 2009 within our Form 10-Q/A to correct the following errors:

- Accounting for amounts that we pay our drop ship fulfillment partners and an amount due from a vendor that went undiscovered for a period of time. Specifically, these errors related to (1) amounts we paid to partners or deducted from partner payments related to return processing services and product costs and (2) amounts we paid to a freight vendor based on incorrect invoices from the vendor. Once discovered, we applied gain contingency accounting for the recovery of such amounts, which was an inappropriate accounting treatment.

- Amortization of the expense related to restricted stock units. Previously the expense was based on the actual three year vesting schedule, which incorrectly understated the expense as compared to a three year straight line amortization. We also corrected for the use of an outdated forfeiture rate in calculating share-based compensation expense under the plans.

The following additional adjustments were also included in this restatement:

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- Correction of certain amounts related to customer refunds and credits.

- Recognition of co-branded credit card bounty revenue and promotion expense over the estimated term of the credit card relationships. Previously the revenue was incorrectly recognized when the card was issued.

- Reduction in the restructuring accrual and correction of the related expense due to a 2008 sublease benefit which was previously excluded from the accrual calculation and the accretion of interest expense related to the restructuring accrual, which was not previously recorded.

- Change in our accounting for external audit fees to the as incurred method instead of the ratable method.

- Other miscellaneous adjustments, none of which were material either individually or in the aggregate. Certain of these adjustments were related to a reduction in revenue and cost of goods sold in equal amounts for certain consideration we received from vendors, an increase in inventory, accounts payable and accrued liabilities to record our sales return allowance on a gross basis, an adjustment to our cash and restricted cash balances due to compensating balance arrangements and an adjustment to record redeemable common stock for certain shares previously issued to employees.

The effect of the adjustments on the Consolidated Results of Operations for the three months ended March 31, 2008 and 2009 is to decrease net loss attributable to common shares by $814,000 and increase net loss attributable to common shares by $1.9 million, respectively. The effect of the adjustments on loss per common share from continuing operations for the three months ended March 31, 2008 and 2009 is to decrease loss per common share by $0.03 and increase loss per common share by $0.08, respectively.

A more complete discussion of the restatement can be found in Note 3 to the consolidated financial statements contained in Item 1of Part I of this Amendment.

Overview

We are an online retailer offering closeout and discount brand and non-brand name merchandise, including bed-and-bath goods, home décor, kitchenware, watches, jewelry, electronics and computers, sporting goods, apparel, and designer accessories, among other products. We also sell books, magazines, CDs, DVDs and video games (BMMG). We also operate as part of our Website an online auctions business a marketplace for the buying and selling of goods and services as well as online sites for listing cars and real estate for sale.

Our Company, based in Salt Lake City, Utah, was founded in 1997, and we launched our first Website through which customers could purchase products in March 1999. Our Website offers our customers an opportunity to shop for bargains conveniently, while offering our suppliers an alternative inventory liquidation or sales channel. We continually add new, limited inventory products to our Website in order to create an atmosphere that encourages customers to visit frequently and purchase products before our inventory sells out. We offer approximately 184,000 products under multiple departments under the shopping tab on our Website, and offer approximately 452,000 media products in the Books etc. department on our Website. We sell products primarily in the United States, with a small amount of products (less than 1% of sales) sold internationally.

Closeout merchandise is typically available in inconsistent quantities and often is only available to consumers after it has been purchased and resold by disparate liquidation wholesalers. We believe that the traditional liquidation market is therefore characterized by fragmented supply and fragmented demand. We use the Internet to aggregate both supply and demand and create a more efficient market for liquidation merchandise. Our objective is to provide a one-stop destination for discount shopping for products and services sold through the Internet.

Our Business

We use the Internet to create a more efficient market for liquidation, closeout and other discount merchandise. We provide consumers and businesses with quick and convenient access to high-quality, brand-name merchandise at discount prices. Our shopping business (sales of product offered through the Shopping section of our Website) includes both a direct business and a fulfillment partner business (see Item 1 of Part I, Financial Statements Note 14 Business Segments). Products from our direct segment and fulfillment partner segments (including products from various industry verticals, such as florist supplies, restaurant supplies, and office supplies) are also available in bulk to both consumers and businesses through the Wholesale product category on our Website. During the three months ended March 31, 2008, and 2009, no single customer accounted for more than 1% of our total net revenue.

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Direct business

Our direct business includes sales made to individual consumers and businesses, which are fulfilled from our leased warehouses in Salt Lake City, Utah. During the three months ended March 31, 2008 and 2009, we fulfilled approximately 21% and 15%, respectively, of all orders through our warehouses. Our warehouses generally ship between 5,000 and 8,000 orders per day and up to approximately 32,000 orders per day during peak periods, using overlapping daily shifts.

Fulfillment partner business

For our fulfillment partner business, we sell merchandise of other retailers, cataloguers or manufacturers (fulfillment partners) through our Website. We are considered to be the primary obligor for the majority of these sales transactions and we record revenue from the majority of these sales transactions on a gross basis. Our use of the term partner or fulfillment partner does not mean that we have formed any legal partnerships with any of our fulfillment partners. We currently have fulfillment partner relationships with approximately 1,300 third parties which post approximately 179,000 non-BMMG products, as well as most of the BMMG products, on our Website. Our revenue from sales on our shopping site from both the direct and fulfillment partner businesses is recorded net of returns, coupons and other discounts.

Both direct and fulfillment partner revenues are seasonal, with revenues historically being the highest in the fourth quarter, which ends December 31, reflecting higher consumer holiday spending. We anticipate this will continue in the foreseeable future.

Unless otherwise indicated or required by the context, the discussion herein of our financial statements, accounting policies and related matters, pertains to the Shopping section of our Website and not necessarily to the Auctions, Cars, Real Estate or Community sections of our Website.

Auctions business

We provide an online auction service on our Website. The Auctions business allows sellers to list items for sale, buyers to bid on items of interest, and users to browse through listed items online. Except in limited circumstances where we auction-lists returned merchandise, we are not the seller of auction-listed items and have no control over the pricing of those items. Therefore, the listing fees for items sold at auction by sellers are recorded as revenue during the period items are listed or sold on a net basis. The revenue for the merchandise returned to the Company that we sell at auction is recorded on a gross basis. Revenue from the auctions business has been included in the fulfillment partner segment.

Car listing business

We provide an online site for listing cars for sale as a part of our Website. The cars listing service allows dealers to list vehicles for sale and allows buyers to review vehicle descriptions, post offers to purchase, and provides the means for purchasers to contact sellers for further information and negotiations on the purchase of an advertised vehicle. Revenue from the cars listing business is recorded net and is included in the fulfillment partner segment.

Real-Estate listing business

We provide an online site for listing real estate for sale as a part of our Website. The real estate listing service allows customers to search active listings across the country. Listing categories include foreclosures, live and on-line auctions, for sale by owner listings, broker/agent listings and numerous aggregated classified ad listings. Revenue from the real estate listing business is recorded net and is included in the fulfillment partner segment.

International business

We began selling products through our Website to customers outside the United States in late August 2008. The initial launch included Canada and 34 European countries, including the U.K. and Germany. We do not have operations outside the United States, and are using a U.S. based third party to provide logistics and fulfillment for all international orders. Revenue generated from our international business is included in either direct or fulfillment partner revenue, depending on whether the product is shipped from our warehouses or from a fulfillment partner.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States (GAAP) requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The Securities and Exchange Commission (SEC) has defined a company s critical accounting policies as the ones that are most important to the

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portrayal of the company s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, see Item 1 of Part I, Financial Statements Note 2 Accounting Policies. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions. Our critical accounting policies are as follows:

- revenue recognition;
- estimating valuation allowances and accrued liabilities (specifically, the allowances for returns, credit card chargebacks, doubtful accounts and obsolete and damaged inventory);
- internal use software and website development (acquired and developed internally);
- accounting for income taxes;
- valuation of long-lived and intangible assets and goodwill; and
- stock-based compensation.

Revenue recognition

We derive our revenue primarily from two sources: direct revenue and fulfillment partner revenue, including listing fees and commissions collected from products being listed and sold through the Auctions tab of our Website as well as advertisement revenue derived from our cars listing business. We have organized our operations into two principal segments based on the primary source of revenue: Direct revenue and Fulfillment partner revenue (see Item 1 of Part I, Financial Statements Note 13 Business Segments).

Revenue is recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured.

Revenue related to merchandise sales is recognized upon delivery to our customers. As we ship high volumes of packages through multiple carriers, it is not practical for us to track the actual delivery date of each shipment. Therefore, we use estimates to determine which shipments are delivered and, therefore, recognized as revenue at the end of the period. Our delivery date estimates are based on average shipping transit times, which are calculated using the following factors: (i) the shipping carrier (as carriers differ in transit times); (ii) the fulfillment source (either our warehouses or those of our fulfillment partners); (iii) the delivery destination; and (iv) actual transit time experience, which shows that delivery date is typically one to eight business days from the date of shipment.

We review and update our estimates on a quarterly basis based on our actual transit time experience. However, actual shipping times may differ from our estimates. The following table shows the effect that hypothetical changes in the estimate of average shipping transit times would have had on the reported amount of revenue and net loss for the three months ended March 31, 2009 (in thousands):

	Three months ended March 31, 2009	
Change in the Estimate of Average Transit Times (Days)	**Effect on Revenue**	**Effect on Net Loss**
2	$ (4,371)	$ (930)
1	$ (1,932)	$ (412)
As reported	As reported	As reported
-1	$ 1,751	$ 377
-2	$ 4,600	$ 1,001

We evaluate the criteria outlined in EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When we are the primary obligor in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded gross. If we are not the primary obligor in

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the transaction and amounts earned are determined using a fixed percentage, revenue is recorded on a net basis. Currently, the majority of both direct revenue and fulfillment partner revenue is recorded on a gross basis, as we are the primary obligor. In our statements of operations, we present revenue net of sales taxes.

We periodically provide incentive offers to our customers to encourage purchases. Such offers include discount offers, such as percentage discounts off current purchases and other similar offers, which, when used by our customers, are treated as a reduction of revenue.

Co-branded Credit Card

We have a co-branded credit card agreement with a third-party bank, for the issuance of credit cards bearing the Overstock brand, under which the bank pays us fees for new accounts, renewed accounts and for card usage. New and renewed account fees are recognized as revenues on a straight-line basis over the estimated life of the credit card relationship. Credit card usage fees are recognized as revenues as actual credit card usage occurs.

Direct revenue

Direct revenue is derived from merchandise sales to individual consumers and businesses that are fulfilled from our leased warehouses. Direct revenue comes from sales that occur primarily through our Website, but may also occur through offline channels.

Fulfillment partner revenue

Fulfillment partner revenue is derived from merchandise sales through our Website which fulfillment partners ship directly to consumers and businesses from warehouses maintained by our fulfillment partners.

We operate an online auction service as a part of our Website. The Auctions business allows sellers to list items for sale, buyers to bid on items of interest, and users to browse through listed items online. With limited exceptions, we are not considered the seller of the items sold on the auction site and have no control over the pricing of those items. Therefore, for these sales, only the listing fees for items listed and commissions for items sold are recorded as revenue during the period items are listed or items are sold. Revenue from the auctions business has been included in the fulfillment partner segment.

We operate an online site for listing cars for sale as a part of our Website. The cars listing service allows dealers to list vehicles for sale and allows buyers to review vehicle descriptions, post offers to purchase, and provides the means for purchasers to contact sellers for further information and negotiations on the purchase of an advertised vehicle. Revenue from the cars listing business has been included in the fulfillment partner segment.

We operate an online site for listing real estate for sale as a part of our Website. The real estate listing service allows customers to search active listings across the country. Listing categories include foreclosures, live and on-line auctions, for sale by owner listings, broker/agent listings and numerous aggregated classified ad listings. Revenue from the real estate listing business has been included in the fulfillment partner segment.

International business

We began selling products through our website to customers outside the United States in August 2008. The initial launch included Canada and 34 European countries, including the U.K. and Germany. We do not have operations outside the United States, and are utilizing a U.S. based third party to provide logistics and fulfillment for all international orders. Revenue generated from our international business is included in either direct or fulfillment partner revenue, depending on whether the product is shipped from our leased warehouses or from a fulfillment partner.

Credit card chargeback allowance

Revenue is recorded net of credit card chargebacks. We maintain an allowance for credit card chargebacks based on current period revenues and historical chargeback experience. The allowance for chargebacks was $365,000 at December 31, 2008 and $314,000 at March 31, 2009, respectively.

Deferred revenue

Customer orders are recorded as deferred revenue prior to delivery of products or services ordered. Amounts received in advance for Club O membership fees are recorded as deferred revenue and recognized ratably over the membership period. In addition, we sell gift cards and record related deferred revenue at the time of the sale. Gift cards are sold without expiration dates and revenue from a gift card is recognized upon redemption of the gift card. If a gift card is not redeemed, we recognize income when the likelihood of its redemption becomes remote based on our historical redemption experience. We consider the likelihood of redemption to be remote after 36 months.

Sales returns allowance

We inspect all returned items when they arrive at our processing facility. We will refund the full cost of the merchandise returned and all original shipping charges if the returned item is defective or we have made an error, such as shipping the wrong product.

If the return is not a result of a product defect or our error and our customer initiates a return of an unopened item within 30 days of delivery, except for computers and electronics, we will refund the full cost of the merchandise minus the original shipping charge and actual return shipping fees. However, we will reduce refunds for returns initiated more than 30 days after delivery or that are received at our returns processing facility more than 45 days after initial delivery.

If our customer returns an item that has been opened or shows signs of wear, it will issue a partial refund minus both the original shipping charge and return shipping fees.

Total net revenue is recorded net of estimated returns. We record an allowance for returns based on current period revenues and historical returns experience. Management analyzes historical returns, current economic trends and changes in order volume and acceptance of our products when evaluating the adequacy of the sales returns allowance in any accounting period. Our actual product returns have not differed materially from our estimates. We are not aware of any trends that we expect would significantly change future returns experience compared to historical experience. The allowance for returns was $16.2 million at December 31, 2008, and $10.5 million at March 31, 2009.

Allowance for doubtful accounts

From time to time, we grant credit to certain of our business customers on normal credit terms (typically 30 days). We perform ongoing credit evaluations of our customers   financial condition and maintain an allowance for doubtful accounts receivable based upon our historical collection experience and expected collectability of all accounts receivable. The allowance for doubtful accounts receivable was $1.6 million at December 31, 2008, and $1.7 million at March 31, 2009.

Valuation of inventories

We write down our inventory for estimated obsolescence and to lower of cost or market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Once established, the original cost of the inventory less the related inventory allowance represents the new cost basis of such products.

Reversal of the allowance is recognized only when the related inventory has been sold or scrapped.

Internal-use software and website development

Included in fixed assets is the capitalized cost of internal-use software and website development, including software used to upgrade and enhance our Website and processes supporting our business. As required by SOP No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, we capitalize costs incurred during the application development stage of internal-use software and amortize these costs over the estimated useful life of two to three years. Costs incurred related to design or maintenance of internal-use software are expensed as incurred.

Accounting for income taxes

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. As of December 31, 2008 and March 31, 2009, we have recorded a full valuation allowance of $84.6 million and $85.5 million, respectively, against our net deferred tax asset balance due to uncertainties related to our deferred tax assets as a result of our history of operating losses. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to change the valuation allowance, which could materially impact our financial position and results of operations.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. We adopted the provisions of FIN 48 on January 1, 2007. As of the date of adoption of FIN 48 we

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did not have any material uncertain tax positions, accrued interest or penalties associated with unrecognized tax positions. We are subject to audit by the IRS and various states for periods since inception. Our policy is that we recognize interest and penalties accrued on any unrecognized tax positions as a component of income tax expense. There have been no material changes during the three months ended March 31, 2009.

We have recorded no provision or benefit for federal and state income taxes as we have incurred net operating losses since inception. We have provided a full valuation allowance on the net deferred tax assets, consisting primarily of net operating loss carry-forwards, because of uncertainty regarding their realizability.

Impairment of long-lived assets

We review property and equipment and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the assets carrying amount to future undiscounted net cash flows the assets are expected to generate. Cash flow forecasts are based on trends of historical performance and management s estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair values. There were no impairments to long-lived assets recorded during the year ended December 31, 2008, and the three months ended March 31, 2009.

Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the tangible net assets acquired in business combinations. Goodwill is not amortized but tested for impairment at least annually. When evaluating whether goodwill is impaired, we compare the fair value of the reporting unit to which the goodwill is assigned to its carrying amount. If the carrying amount exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss, if any, is calculated by comparing the implied fair value of the goodwill to its carrying amount. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to the other assets and liabilities within the reporting unit based on fair value. The excess of the fair value of a reporting unit over the amount allocated to its other assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized when the carrying amount of goodwill exceeds its implied fair value. There were no impairments to goodwill recorded during the year ended December 31, 2008, and the three months ended March 31, 2009.

Loss contingencies

In the normal course of business, we are involved in legal proceedings and other potential loss contingencies. We accrue a liability for such matters when it is probable that a loss has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued.

Stock-based compensation

As required by SFAS No. 123(R), *Share Based Payment* (SFAS No. 123(R)), we measure compensation cost for all outstanding unvested stock-based awards at fair value and recognize compensation expense on a straight line basis. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as an adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, and historical experience. Actual results may differ substantially from these estimates. We use the Black-Scholes-Merton (BSM) valuation model to estimate the value of stock options granted to employees. Several of the primary estimates used in measuring stock-based compensation are as follows:

Expected Volatility: The fair value of stock options were valued using a volatility factor based on our historical stock prices over the expected term.

Expected Term: For 2005 and 2006 option grants, the expected term represents the period that our stock options are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms and vesting provisions of the stock-based awards. For 2007 and 2008 option grants, we elected to use the simplified method as discussed in Staff Accounting Bulletin (SAB) No. 107, *Share Based Payment* (SAB No. 107), to develop an estimate of expected term. In December 2007, the SEC issued SAB No. 110, *Certain Assumptions Used in Valuation Methods Expected Term* (SAB No. 110). According to SAB No. 110, under certain circumstances the SEC staff will continue to accept the use of the simplified method as discussed in SAB No. 107, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123(R), beyond December 31, 2007. We adopted SAB No. 110 effective January 1, 2008 and will continue to use the simplified method in developing the expected term used for our valuation of stock-based compensation.

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Expected Dividend: We have not paid any dividends and do not anticipate paying dividends in the foreseeable future.

Risk-Free Interest Rate: We base the risk-free interest rate used on the implied yield currently available on U.S. Treasury zero-coupon issues with remaining term equivalent to the expected term of the options.

Estimated Pre-vesting Forfeitures: When estimating forfeitures, we consider voluntary and involuntary termination behavior and historical experience.

Performance share plan

In January 2006, the Board of Directors and Compensation Committee adopted the Overstock.com Performance Share Plan (the Plan) and approved grants to executive officers and certain employees.

As of March 31, 2008, we had recognized $1.2 million in total compensation expense under the Plan, including $150,000 in the three months ended March 31, 2008. During the year ended December 31, 2008, we reversed the cumulative total of compensation expense under the Plan as the Board determined no payments would be made under the Plan. The Plan expired on December 31, 2008.

Restricted stock units

During the three months ended March 31, 2009, 337,200 restricted stock units were granted. The restricted stock units vest over three years at 25% at the end of the first year, 25% at the end of the second year and 50% at the end of the third year and are subject to the employee s continuing service to us. At March 31, 2009, there were 660,000 restricted stock units that remained outstanding.

The cost of restricted stock units is determined using the fair value of the Company s shares of common stock on the date of the grant and compensation expense is recognized on a straight line basis (see Item 1 of Part I, Financial Statements Note 12 Stock-Based Awards).

Accounting pronouncements issued not yet adopted

In April 2009, the FASB issued FASB Staff Position (FSP) FAS No. 107-1 and Accounting Principles Board (APB) Opinion (APB) No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS No. 107-1 and APB Opinion No. 28-1), which amends the disclosure requirements of SFAS No. 107 and APB Opinion No. 28 and requires disclosure about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. FSP FAS No. 107-1 and APB Opinion No. 28-1 are effective for financial statements issued for interim reporting periods ending after June 15, 2009. We do not expect the adoption of FSP FAS No. 107-1 and ABP Opinion No. 28-1 will have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS No. 115-2 and FAS No. 124-2), which amends SFAS No. 115 and FSP FAS No. 115-1 and FAS No. 124-1 and conforms changes to other standards including Emerging Issue Task Force (EITF) Issue No. 99-20 and AICPA Statement of Position (SOP) No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* and improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS No. 115-2 and FAS No. 124-2 is effective for interim and annual reporting periods ending after June 15, 2009. We do not expect the adoption of FSP FAS No. 115-2 and FAS No. 124-2 will have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS No. 157-4), which provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly and applies to all assets and liabilities with the scope of accounting pronouncements that require or permit fair value measurements, except in paragraphs 2 and 3 of SFAS No. 157. FSP FAS No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. We do not expect the adoption of FSP FAS No. 157-4 will have a material impact on our consolidated financial statements.

Executive Commentary

This executive commentary is intended to provide investors with a view of our business through the eyes of our management. As an executive commentary, it necessarily focuses on selected aspects of our business. This executive commentary is

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intended as a supplement to, but not a substitute for, the more detailed discussion of our business included elsewhere herein. Investors are cautioned to read our entire Management s Discussion and Analysis of Financial Condition and Results of Operations , as well as our interim and audited financial statements, and the discussion of our business and risk factors and other information included elsewhere in this report. This executive commentary includes forward-looking statements, and investors are cautioned to read the Special Note Regarding Forward-Looking Statements at the beginning of Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Commentary Revenue. Due to a weak economic environment, revenue growth in our business has slowed since early in the fourth quarter of 2008 as consumers have pulled back on discretionary spending due to economic worries. Consumer sentiment remained soft throughout the first quarter of 2009, and while we saw a modest increase in traffic to our website compared to the same period of 2008, conversion and average order size were both lower. As a result, total net revenue decreased 8% for the three months ended March 31, 2009, to $185.7 million. The outlook for revenue growth in 2009 is unclear. Revenue growth in the second and third quarters of 2008 was 26% and 16%, respectively, so the year-over-year comparisons will be challenging until the fourth quarter of 2009. We have made a conscious effort this year to focus on areas below the revenue line, specifically, contribution, which is gross profit less sales and marketing expense.

Commentary Gross Profit and Gross Margin. Despite a lower revenue base, gross profit increased by 4% in the first quarter of 2009 and gross margin expanded 230 basis points to 19.5%, compared to the same period in 2008, a historical best for the Company. This was significant because we faced a surprising amount of pricing pressure during the quarter, particularly in January and February. This pressure carried over from the fourth quarter of 2008 when in-line retailers cut prices drastically to move through excess inventory. Efficiency gains in our returns logistics through improved operations and policy decisions we made last year were the primary driver of improvements this quarter. We also saw improvement in inbound and outbound freight costs as well as lower handling and packaging costs at our distribution centers.

We believe there are additional cost efficiencies we can take out of our operations over the near term that should allow us to remove an additional 100-150 basis points in our cost of goods sold. However, we do not expect to see gross margins continue to rise from here. Rather, it is our intention to pass much of that improvement on to our customers in the form of lower prices. It is also our intention to grow the consumer electronics and computer category this year, which has typically been a lower gross margin business for us. This will also weigh on gross margin going forward. In addition, we anticipate seeing an increase in fixed warehouse expenses as we occupy the remaining space in our new distribution center.

*Commentary Sales and Marketing*Sales and marketing expense decreased 10% to $13.6 million and marketing efficiency (marketing as a percentage of total net revenue) improved to 7.3% in first quarter of 2009 from 7.4% in the first quarter of 2008. Increased personnel costs due to higher headcount were more than offset by lower or more efficient spend in our various marketing channels.

Commentary Technology/G&A. Combined technology and G&A expenses increased 15% to $27.4 million. Salaries and benefits relating to an increase in headcount was the primary driver in higher G&A costs. IT related personnel costs increased during the quarter as well, but less than the decrease in depreciation expense. The increase was also due to a termination payment of $1.25 million accrued in connection with the termination of a consulting arrangement with Icent LLC. Icent LLC s chief executive officer is James V. Joyce, who resigned from his position as a member of the Board of Directors on April 1, 2009.

Commentary Contribution(a non-GAAP financial measure) *and Contribution Margin.* Due to higher gross profit and more efficient sales and marketing, Contribution (a non-GAAP financial measure defined as gross profit dollars less sales and marketing expense) increased 15% to $22.5million. Contribution margin was 12.1%, a 240 basis point improvement over last year. Our primary focus this year is growth in

Contribution dollars through better pricing and managing expenses.

Contribution reflects an additional way of viewing our results. When viewed with our GAAP gross profit less sales and marketing expenses, we believe Contribution provides investors information about the performance of our sales and marketing efforts in generating gross profit. See Non-GAAP Financial Measures below for the calculation of Contribution.

Commentary Cash Flows. We used $(27.0) million in cash flow from operations in the first quarter of 2009 compared to cash used of $(41.1) million during the same period in 2008. Operating cash flows in the first quarter are typically low compared to other times of year as we pay fulfillment partners and suppliers for products sold during the previous holiday season.

Free Cash Flow (a non-GAAP financial measure) for the three months ended March 31, 2009 and 2008 totaled $(28.8) million and $(42.4) million, respectively. See Non-GAAP Financial Measures below for a reconciliation of Free Cash Flow to net cash provided by (used in) operating activities.

Commentary Balance Sheet. We ended the quarter with $74.5 million in cash and cash equivalents, compared to $96.5

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million at December 31, 2008. Working capital was $34.1 million at March 31, 2009, down from $41.8 million at December 31, 2008. The $7.7 million difference is primarily comprised of $3.0 million used to retire debt (see below) and $1.7 million used for capital expenditures.

We ended the quarter with $16.1 million of inventory, a decrease from the $23.5 million of inventory we had at the end of the first quarter of 2008.

Commentary Debt Repurchase Program. At March 31, 2009, $61.7 million of our 3.75% Senior Convertible Notes due 2011 (Senior Notes) were outstanding. On February 17, 2009, our Board authorized us to spend up to $20.0 million to repurchase Senior Notes. To date, we have spent $3.0 million under the new debt repurchase program, all of which occurred during the three months ended March 31, 2009.

The balance of our Management s Discussion and Analysis of Financial Condition and Results of Operations provides further information about the matters discussed above and other important matters affecting our business.

Results of Operations

The following table sets forth our results of operations expressed as a percentage of total net revenue:

	Three months ended March 31,	
	2008 (Restated)	**2009 (Restated)**
	(as a percentage of total revenue)	
Revenue, net		
Direct	25.6%	18.8%
Fulfillment partner	74.4	81.2
Total net revenue	100.0	100.0
Cost of goods sold		
Direct	22.1	16.4
Fulfillment partner	60.7	64.1
Total cost of goods sold	82.8	80.5
Gross profit	17.2	19.5
Operating expenses:		
Sales and marketing	7.4	7.3
Technology	7.2	7.3
General and administrative	4.7	7.5
Total operating expenses	19.3	22.1
Operating loss	(2.1)	(2.6)
Interest income	0.6	0.1
Interest expense	(0.4)	(0.5)
Other (expense) income, net		0.9
Net loss	(1.9)%	(2.1)%

Comparison of Quarters Ended March 31, 2008 and 2009

Revenue

Total net revenue decreased 8% from $201.8 million for the three months ended March 31, 2008, to $185.7 million for the three months ended March 31, 2009 due to a weak economic environment. Revenue growth in our business has slowed since early in the fourth quarter of 2008 as consumers have pulled back on discretionary spending due to economic worries. Consumer sentiment remained soft throughout the first quarter of 2009, and while we saw a modest increase in traffic to our website compared to the first quarter of 2008, conversion and average order size were both lower.

Direct revenue decreased 32% from $51.7 million in the first quarter of 2008 compared to $34.9 million in the first quarter

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of 2009. Fulfillment partner revenue increased 0% from the first quarter of 2008 compared to first quarter of 2009, from $150.1 million in the first quarter of 2008 to $150.8 million in the first quarter of 2009.

Total revenues from Auctions, Cars and Real Estate businesses were $253,000 and $504,000 for the three months ended March 31, 2008 and 2009, respectively.

See Executive Commentary above for additional discussion regarding revenue and revenue growth.

Gross profit and gross margin

Generally, our overall gross margins fluctuate based primarily on several factors, including our sales volume mix between our direct business and fulfillment partner business; changes in vendor and / or customer pricing, including competitive pricing, and inventory management decisions within the direct business; sales coupons and promotions; product mix of sales; operational and fulfillment costs.

Gross margin increased 230 basis points, from 17.2% in first quarter of 2008 to 19.5% in the first quarter of 2009. Gross profit for these same quarters in 2008 and 2009 was $34.6 million and $36.1 million, respectively, a 4% increase.

Gross margins for the past five quarterly periods and fiscal year ending 2008 were:

	Q1 2008 (Restated)	Q2 2008 (Restated)	Q3 2008 (Restated)	Q4 2008 (Restated)	FY 2008 (Restated)	Q1 2009 (Restated)
Direct	13.5%	12.5%	10.4%	8.8%	11.4%	12.9%
Fulfillment Partner	18.4%	19.7%	19.7%	18.3%	19.0%	21.0%
Combined	17.2%	18.2%	18.0%	16.5%	17.4%	19.5%

The improvement in gross profit percentage was primarily due to increased supply chain efficiencies in 2009. The other factors described above had no significant impact on the change in gross profit and gross profit percentage.

During 2008, we discovered that we had underbilled our fulfillment partners for certain fees and charges related to returns during the years ended December 31, 2007 and 2008, due to a systems issue. Of the total $5.5 million underbilling, $2.8 million related to the year ended December 31, 2007 and $2.7 million related to year ended December 31, 2008.

We contacted the affected fulfillment partners and in our negotiations with them over several months, we agreed to forgive the $2.8 million related to the 2007 amounts and to seek to recover the $2.7 million related to 2008 over time from our future sales of the fulfillment partners products during the remainder of 2008 and 2009. As a result of the negotiations we later agreed to forgive an additional $375,000. We recovered a total of $2.3 million through December 31, 2009, including $1.8 million during the three months ended December 31, 2008 and $615,000 during the year ended December 31, 2009. We have recorded the amounts recovered related to 2008 in the period that they originally originated. See Note 3 of the financial statements (see Item 1 of Part I, Financial Statements Note 3 Restatement of Financial Statements) for additional information.

During our review of our partner billing system for returns, we additionally discovered that we had underbilled our fulfillment partners for certain fees and charges related to returns, of which approximately $326,000 arose during the three months ended March 31, 2009. We have made the determination to not seek recovery of these amounts from our fulfillment partners and consequently have not recognized any related recoveries in our consolidated financial statements.

Cost of goods sold includes stock-based compensation expense of $52,000 and $44,000 for the three months ended March 31, 2008 and 2009, respectively.

Direct Gross Profit and Gross Margin Gross profit for our direct business declined 36% from $7.0 million during the three months ended March 31, 2008 to $4.5 million for the same period in 2009. Gross profit for our direct business as a percentage of direct revenue decreased from 13.5% in the first quarter of 2008 to 12.9% in the first quarter of 2009.

Gross margin for our direct business decreased along with a decrease in direct revenue of 32% for the first quarter of 2009 compared to the same quarter of 2008. While fulfillment costs continue to improve, these benefits are more than offset by our fixed warehouse cost being amortized over a smaller direct revenue base.

Fulfillment Partner Gross Profit and Gross Margin Our fulfillment partner business generated gross profit of

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$27.7 million and $31.6 million for the three months ended March 31, 2008 and 2009, respectively, an increase of 14%. Gross margin for the fulfillment partner business also increased from 18.4% in the first quarter of 2008 to 21.0% in the first quarter of 2009. The increase in gross profit dollars for our fulfillment partner business is the result of the 0% increase in fulfillment partner revenue combined with increased gross margin.

See Executive Commentary above for additional discussion.

Fulfillment costs

Fulfillment costs include all warehousing costs, including fixed overhead and variable handling costs (excluding packaging costs), as well as credit card fees and customer service costs, all of which we include as costs in calculating gross margin. We believe that some companies in our industry, including some of our competitors, account for fulfillment costs within operating expenses, and therefore exclude fulfillment costs from gross margin. As a result, our gross margin may not be directly comparable to others in our industry.

The following table has been included to provide investors additional information regarding our classification of fulfillment costs and gross margin, thus enabling investors to better compare our gross margin with others in our industry (in thousands):

	Three months ended March 31,					
	2008 (Restated)			2009 (Restated)		
Total revenue, net	$	201,800	100%	$	185,729	100%
Cost of goods sold						
Product costs and other cost of goods sold		155,205	77%		138,566	75%
Fulfillment costs		11,983	6%		11,032	6%
Total cost of goods sold		167,188	83%		149,598	81%
Gross profit	$	34,612	17%	$	36,131	19%

As displayed in the above table, fulfillment costs during the three months ended March 31, 2008 and 2009 were $12.0 million and $11.0 million, representing 6% of total net revenue for those respective periods. Fulfillment costs as a percentage of sales may vary due to several factors, such as our ability to manage costs at our warehouses, significant changes in the number of units received and fulfilled, the extent to which we utilize third party fulfillment services and warehouses, and our ability to effectively manage customer service costs and credit card fees.

Operating expenses

Sales and marketing expenses. Sales and marketing expenses totaled $15.0 million and $13.6 million for the three months ended March 31, 2008 and 2009, respectively, representing 7.4% and 7.3% of total net revenue for those respective periods. Comparing the first quarter of 2008 with the same quarter of 2009, sales and marketing expenses decreased 10%. We direct customers to our Website primarily through a number of targeted online marketing channels, such as sponsored search, affiliate marketing, portal advertising, e-mail campaigns, and other initiatives. We also use nationwide television, print and radio advertising campaigns to promote sales.

Sales and marketing expenses also include stock-based compensation expense of $88,000 and $142,000 for the three months ended March 31, 2008 and 2009, respectively.

Costs associated with our discounted shipping and other promotions are not included in marketing expense. Rather they are accounted for as a reduction of revenue and therefore affect sales growth and gross margin. We consider discounted shipping and other promotions as an effective marketing tool, and intend to continue to offer them as we deem appropriate as part of our overall marketing plan.

Technology expenses. We seek to efficiently invest in our technology, including web services, customer support, search, and expansion of new and existing product categories, as well as technology infrastructure to continue to enhance the customer experience, improve our process efficiency and support our web services infrastructure.

Technology expenses totaled $14.5 million and $13.6 million for the first quarters of 2008 and 2009, representing 7.2%

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and 7.3% of revenue for the first quarters of 2008 and 2009, respectively. Comparing the first quarter of 2008 to the first quarter of 2009, technology expenses decreased 6% primarily due to decreased depreciation expense for technology equipment and website development. Technology expenses include stock-based compensation expense of $226,000 and $236,000 for the three months ended March 31, 2008 and 2009, respectively.

General and administrative expenses. General and administrative (G&A) expenses totaled $9.4 million and $13.8 million for the three months ended March 31, 2008 and 2009, respectively, representing approximately 4.7% and 7.5% of total net revenue for those respective periods. The increase of $4.4 million in G&A expenses is primarily due to an increase in the number of merchandising, finance, HR and administrative employees and a termination payment of $1.25 million accrued in connection with the termination of a consulting arrangement with Icent LLC. Icent LLC s chief executive officer is James V. Joyce, who resigned from his position as a member of the Board of Directors on April 1, 2009. In addition, legal expenses were also higher in the first quarter of 2009 compared to the legal expenses incurred in the first quarter of 2008; however, the increase in legal expense for 2009 was offset by $600,000 received from the settlement of legal matters

General and administrative expenses include stock-based compensation expense of approximately $1.0 million and $777,000 for the three months ended March 31, 2008 and 2009, respectively.

Overall, our total operating expenses increased 5% during the first quarter of 2009 when compared to the same quarter of the previous year, while total net revenues decreased 8% and gross profit increased 4% for the same period of 2008.

Depreciation expense. Depreciation expense is classified within the corresponding operating expense categories on the consolidated statements of operations as follows (in thousands):

	Three months ended March 31, 2008 (Restated)	Three months ended March 31, 2009 (Restated)
Cost of goods sold - direct	$ 438	$ 323
Sales and marketing		
Technology	6,115	3,494
General and administrative	8	170
Total depreciation and amortization, including internal-use software and website development	$ 6,561	$ 3,987

Non-operating income (expense)

Interest income and interest expense. Interest income is primarily derived from the investment of our cash in short-term investments. Comparing the first quarter of 2008 to the first quarter of 2009, the decrease in interest income is due to a decrease in total cash, interest rates and the settlement of notes receivable related to our travel subsidiary (see Item 1 of Part I, Financial Statements Note 5 Acquisition and Subsequent Discontinued Operations). Interest expense is largely related to interest incurred on our Senior Notes and our credit lines. Interest expense for the three months ended March 31, 2008 and 2009 totaled $901,000 and $922,000, respectively.

Other income (expense). For the three months ended March 31, 2009, other income (expense) was $1.7 million. This included a $1.9 million gain, net of amortization of debt discount of $63,000 on the extinguishment of $4.9 million of the Senior Notes (see Item 1 of Part I, Financial Statements Note 11 Stock and Debt Repurchase Program). This gain was offset in part by a loss on the disposition of fixed assets of $184,000.

Sale of discontinued operations

On January 21, 2009, we entered into a Note Purchase Agreement to settle both the senior and junior promissory notes related to the sale of our travel subsidiary to Castles Travel, Inc for $1.3 million in cash and recognized a loss on the settlement of these notes and interest receivable of approximately $3.9 million which was recorded during the year ended December 31, 2008 (see Item 1 of Part I, Financial Statements Note 5 Acquisition and Subsequent Discontinued Operations).

Income taxes

For the three months ended March 31, 2008 and 2009, we incurred net losses, and consequently paid insignificant amounts

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of federal, state and foreign income taxes. As of December 31, 2008 and March 31, 2009, we had federal net operating loss carry forwards of approximately $166.1 million and $171.7 million, respectively, and state net operating loss carry forwards of approximately $145.8 million and $151.4 million, respectively, which may be used to offset future taxable income. An additional $15.9 million of net operating losses are limited under Internal Revenue Code Section 382 to $799,000 a year. These net operating loss carry-forwards will begin to expire in 2018.

Seasonality

Based upon our historical experience, revenue typically increases during the fourth quarter because of the holiday retail season. The actual quarterly results for each quarter could differ materially depending upon consumer preferences, availability of product and competition, among other risks and uncertainties. Accordingly, there can be no assurances that seasonal variations will not materially affect our results of operations in the future. The following table reflects our total net revenues for each of the quarters since 2006 (in thousands):

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009(Restated)	$	185,729	N/A	N/A	N/A
2008(Restated)		201,800	188,202	186,007	253,841
2007		162,156	149,171	160,059	294,516
2006		179,783	159,717	158,230	282,407

Liquidity and Capital Resources

Historical sources of liquidity

Prior to the second quarter of 2002, we financed our activities primarily through a series of private sales of equity securities, warrants to purchase our common stock and promissory notes. During the second quarter of 2002, we completed our initial public offering pursuant to which we received approximately $26.1 million in cash, net of underwriting discounts, commissions, and other related expenses. Additionally, we completed follow-on offerings in February 2003, May 2004 and November 2004, pursuant to which we received approximately $24.0 million, $37.9 million and $75.2 million, respectively, in cash, net of underwriting discounts, commissions, and other related expenses. In November 2004, we also received $116.2 million in proceeds from the issuance of our 3.75% Convertible Senior Notes due 2011 in a transaction exempt from registration under the Securities Act. During 2006, we received $64.4 million from two stock offerings in May and December.

Current sources of liquidity

While we believe that the cash and cash equivalents currently on hand and expected cash flows from future operations will be sufficient to continue operations for at least the next twelve months, we may require additional financing. However, there can be no assurance that if additional financing is necessary it will be available, or, if available, that such financing can be obtained on satisfactory terms. Failure to generate sufficient revenues, profits or to raise additional capital could have a material adverse effect on our ability to continue as a going concern and to achieve our intended business objectives. Any projections of future cash needs and cash flows are subject to substantial uncertainty.

Our principal sources of liquidity are cash flows generated from annual operations and our existing cash and cash equivalents resources. At March 31, 2009, our cash and cash equivalents balance was $74.5 million.

Cash flow information is as follows:

	Three months ended March 31, 2008 (Restated)	2009 (Restated)
	(in thousands)	
Cash provided by (used in):		
Operating activities	$ (41,111)	$ (27,030)
Investing activities	15,561	8,416
Financing activities	(15,794)	(3,356)

Free Cash Flow. Free Cash Flow (a non-GAAP measure) for the three months ended March 31, 2008 and 2009, was $(42.4) million and $(28.8) million. See Non-GAAP Financial Measures below for a reconciliation of Free Cash Flow to net cash provided by (used in) operating activities.

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Cash used in operating activities. For the three months ended March 31, 2008 and 2009, our operating activities resulted in net cash outflows of $(41.1) million and net cash outflows of $(27.0) million, respectively.

Cash received from customers generally corresponds to our net sales as our customers primarily use credit cards to buy from us causing our receivables from these sales transactions to settle quickly. We have payment terms with our fulfillment partners that generally extend beyond the amount of time necessary to collect proceeds from our customers. As a result, following our seasonally strong fourth quarter sales, at December 31 of each year, our cash, cash equivalents, marketable securities and accounts payable balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). However, our accounts payable balance normally declines during the first three months following year-end, which normally results in a decline in our cash, cash equivalents, and marketable securities balances from the year-end balance.

The primary operating use of cash and cash equivalents during the three months ended March 31, 2009 was to fund our net loss of $(3.9) million (which includes $3.6 million of net non-cash activity, including $1.9 million related to the gain from early extinguishment of debt (see Item 1 of Part I, Financial Statements Note 11 Stock and Debt Repurchase Program)), as well as primarily changes in accounts receivable, accounts payable, and deferred revenue of $2.4 million, $29.2 million, and $1.4 million, respectively. This was primarily offset by the cash provided from changes in inventories of $8.6 million.

In late December 2008, our credit card processor informed us that they would be requiring a reserve from us due to the inherent risks of credit card processing and their assessment of the risks processing our credit cards, and began withholding approximately 1% of our daily credit card remittances as a reserve. They have indicated that they expect to continue such withholding until the reserve reaches a total of $3.5 million. The reserve was $1.5 million at March 31, 2009 and is included in accounts receivable, net, in the consolidated balance sheets.

The primary operating use of cash and cash equivalents during the three months ended March 31, 2008, was to fund our net loss of $(3.9) million (which includes $7.9 million of non cash activity), as well as changes in accounts payable, accrued liabilities and deferred revenue of $37.5 million, $13.9 million and $1.5 million, respectively. This was offset by the cash provided from changes in accounts receivable, inventories, and prepaid inventory, of $1.9 million, $7.7 million and $1.0 million, respectively.

Cash provided by investing activities. Cash provided by investing activities corresponds with purchases, sales, and maturities of marketable securities, cash expenditures for fixed assets, including internal-use software and website development costs. Investing activities resulted in net cash inflows of $15.6 million and net cash inflows of $8.4 million for the three months ended March 31, 2008 and 2009, respectively. The $8.4 million provided by investing activities during the first quarter of 2009 resulted from the net cash inflows for payments received from sales of marketable securities of $8.9 million and a note receivable of $1.3 million related to the sale of our travel subsidiary (see Item 1 of Part I, Financial Statements Note 5 Acquisition and Subsequent Discontinued Operations), offset by expenditures of fixed assets of $1.7 million.

The cash inflows of $15.6 million during the first quarter of 2008 resulted from the sales of marketable securities of $22.9 million offset by purchases of marketable securities of $6.5 million, capital expenditures of $1.3 million and the collection of a $502,000 note receivable.

Cash used in financing activities. Financing activities resulted in net cash outflows of $(15.8) million and $(3.4) million for the three months ended March 31, 2008 and 2009, respectively. The net cash used in financing activities during the three months ended March 31, 2009 was primarily due to the retirement of long-term debt (see Item 1 of Part I, Financial Statements Note 11 Stock and Debt Repurchase Program). The net cash used in financing activities totaling $(15.8) million in first quarter of 2008, was primarily due to our stock repurchase of $12.0 million and payments for capital leases of $3.8 million.

Stock and Debt Repurchase Program

On January 14, 2008, our Board of Directors authorized a repurchase program that allowed us to purchase up to $20.0 million of our common stock and / or our 3.75% Senior Convertible Notes due 2011 (Senior Notes) through December 31, 2009.

Under this repurchase program, we repurchased approximately 1.2 million shares of our common stock in open market purchases for $13.4 million during the year ended December 31, 2008. These common stock repurchases were executed at approximately $11.31 per share which was at the low end of our 52-week historical trading range. We made the repurchases because we believed that the stock was trading at attractively low prices, that we had sufficient cash on hand for all reasonably possible contingencies, and that the use of the cash to repurchase shares was in the best interest of the Company and the stockholders.

In addition, during the third quarter of 2008, we retired $9.5 million of the Senior Notes for $6.6 million in cash at an approximate 16% yield to maturity. As a result of the Senior Notes retirements, we recognized a gain of $2.8 million, net of the associated unamortized discount of $142,000. We had fully utilized the authorized $20.0 million repurchase program as of December 31, 2008.

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On February 17, 2009, the Board of Directors approved a debt repurchase program that authorizes us to use up to $20.0 million in cash to repurchase a portion of our Senior Notes. Under this repurchase program, we retired $4.9 million of the Senior Notes for $3.0 million in cash and recorded $1.9 million gain, net of amortization of debt discount of $63,000 during the quarter ended March 31, 2009 at an approximate 23.7% yield to maturity. As of March 31, 2009, $61.7 million of the Senior Notes remain outstanding (see Item 1 of Part I, Financial Statements Note 11 Stock and Debt Repurchase Program).

Shelf Registration

During 2008 we filed a shelf registration statement with the Securities and Exchange Commission, which was declared effective on December 5, 2008. The new shelf registration statement registers offerings of our securities in an aggregate amount of up to $500.0 million.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of March 31, 2009 and the effect such obligations and commitments are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Period						
Contractual Obligations	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
Long-term debt arrangements	$	$	$ 62,494	$	$	$	$ 62,494
Interest on long-term debt	2,377	2,344	2,344				7,065
Operating leases	5,941	8,534	8,490	7,948	7,305	14,763	52,981
Purchase obligations	10,231	700	508				11,439
Line of credit							
Total contractual cash obligations	$ 18,549	$ 11,578	$ 73,836	$ 7,948	$ 7,305	$ 14,763	$ 133,979

	Amounts of Commitment Expiration Per Period						
Other Commercial Commitments	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
Letters of credit	$ 2,000	$	$	$	$	$	$ 2,000

Purchase obligations. The amount of purchase obligations shown above is based on assumptions regarding the legal enforceability against us of purchase orders we had outstanding at March 31, 2009. Under different assumptions regarding our rights to cancel our purchase orders or different assumptions regarding the enforceability of the purchase orders under applicable law, the amount of purchase obligations shown in the table above would be less.

Borrowings

Long-Term debt arrangements and interest. In November 2004, we completed an offering of $120.0 million of 3.75% Convertible Senior Notes due 2011 (Senior Notes). Proceeds to us were $116.2 million, net of $3.8 million of initial purchaser s discount and debt issuance costs. The discount and debt issuance costs are being amortized using the straight-line method which approximates the effective interest method. We recorded amortization of discount and debt issuance costs related to this offering totaling $87,000 and $74,000 during the three months ended March 31, 2008 and 2009, respectively. Interest on the Senior Notes is payable semi-annually on June 1 and December 1 of each year. The Senior Notes mature on December 1, 2011 and are unsecured and rank equally in right of payment with all existing and future unsecured, unsubordinated debt and senior in right of payment to any existing and future subordinated indebtedness.

The Senior Notes are convertible at any time prior to maturity into our common stock at the option of the note holders at a conversion price of $76.23 per share or, approximately 820,000 shares in aggregate (subject to adjustment in certain events, including stock splits, dividends and other distributions and certain repurchases of our stock, as well as certain fundamental changes in ownership). We have the right to redeem the Senior Notes, in whole or in part, for cash at 100% of the principal amount plus accrued and unpaid interest. Upon the occurrence of a fundamental change (including the acquisition of a majority interest in us, certain changes in our board of directors or the termination of trading of our stock) meeting certain conditions, holders of the Senior Notes may require us to repurchase for cash all or part of their notes at 100% of the principal amount plus accrued and unpaid interest.

The indenture governing the Senior Notes requires us to comply with certain affirmative covenants, including making principal and interest payments when due, maintaining our corporate existence and properties, and paying taxes and other claims in a timely manner. Wilmington Trust Company currently serves as Trustee under the indenture.

Under the repurchase program discussed above, we retired $4.9 million of the Senior Notes during the quarter ended March 31, 2009 for $3.0 million in cash, resulting in a gain of $1.9 million on early extinguishment of debt, net of $63,000 of associated unamortized discount. As of March 31, 2009, $61.7 million of the Senior Notes remained outstanding.

Wells Fargo Credit Agreement. We have a credit agreement (as amended to date, the Credit Agreement) with Wells Fargo Bank, National Association (Wells Fargo). The Credit Agreement provides a revolving line of credit to us of up to $30.0 million which we use primarily to obtain letters of credit to support inventory purchases. Interest on borrowings is payable monthly and accrues at either (i) 1.0% above LIBOR in effect on the first day of an applicable fixed rate term, or (ii) at a fluctuating rate per annum determined by the bank to be one half a percent (0.50%) above daily LIBOR in effect on each business day a change in daily LIBOR is announced by the bank. The Credit Agreement expires on January 1, 2010, and requires us to comply with certain covenants, including restrictions on mergers, business combinations or transfer of assets.

Borrowings and outstanding letters of credit under the Credit Agreement are required to be completely collateralized by cash balances held at Wells Fargo and, therefore, the facility does not provide additional liquidity to us.

At March 31, 2009, no amounts were outstanding under the Credit Agreement, and letters of credit totaling $2.0 million were issued on our behalf, supported by cash balances held at Wells Fargo, which is included in restricted cash in the accompanying Consolidated Balance Sheets.

Wells Fargo Retail Finance Agreement. On January 6, 2009 we entered into an Amended and Restated Loan and Security Agreement dated January 6, 2009 (the Amended WFRF Agreement) with Wells Fargo Retail Finance, LLC (WFRF). The Amended WFRF Agreement replaces our Loan and Security Agreement dated December 12, 2005.

The Amended WFRF Agreement provides for advances to us and for the issuance of letters of credit for our account of up to an aggregate maximum of $35.0 million. The amount actually available to us may be less and may vary from time to time, depending on, among other factors, the amount of its eligible inventories and receivables. Our obligations under the Amended WFRF Agreement and all related agreements are collateralized by all or substantially all of our and our subsidiary s assets. Our obligations under the Amended WFRF Agreement are cross-collateralized with our obligation under our $30.0 million credit facility with Wells Fargo. The Amended WFRF Agreement contains standard default provisions and expires on January 5, 2011. The conditions to our use of the facility include a 45-day advance notice requirement.

Advances under the Amended WFRF Agreement bear interest at either (a) the rate announced, from time to time, within Wells Fargo, at its principal office in San Francisco as its prime rate or (b) a rate based on LIBOR plus a varying percentage between 1.25% and 1.75%; however, the annual interest rate on advances under the Agreement will be at least 3.50%. The Agreement includes affirmative covenants as well as negative covenants that prohibit a variety of actions without the lender s approval, including covenants that limit our ability to (a) incur or guarantee debt, (b) create liens, (c) enter into any merger, recapitalization or similar transaction or purchase all or substantially all of the assets or stock of another person, (d) sell assets, (e) change our name or the name of any of our subsidiaries, (f) make certain changes to our business, (g) optionally prepay, acquire or refinance indebtedness, (h) consign inventory, (i) pay dividends on, or purchase, acquire or redeem shares of, our capital stock, (j) change method of accounting, (k) make investments, (l) enter into transactions with affiliates, or (m) store any of our inventory or equipment with third parties. At March 31, 2009, no amounts were available to us under the Amended WFRF Agreement.

Wells Fargo Commercial Purchasing Card Agreement. We have a commercial purchasing card agreement (the Purchasing Card) with Wells Fargo. We use the Purchasing Card for business purpose purchasing and must pay it in full each month. We are required to maintain a cash balance of $1.4 million at Wells Fargo as collateral for the Purchasing Card and therefore the facility does not provide additional liquidity to us. These amounts are included in restricted cash in the accompanying Consolidated Balance Sheets. At March 31, 2009, $452,000 was outstanding and $798,000 was available under the Purchasing Card.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors other than disclosed in the table above.

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Non-GAAP Financial Measures

Regulation G, *Conditions for Use of Non-GAAP Financial Measures,* and other SEC regulations regulate the disclosure of certain non-GAAP financial information.

Contribution and Contribution Margin. Contribution (a non-GAAP financial measure) (which we reconcile to Gross profit in our statement of operations) consists of gross profit less sales and marketing expense and reflects an additional way of viewing our results. Contribution Margin is Contribution as a percentage of revenues. When viewed with our GAAP gross profit less sales and marketing expenses, we believe Contribution and Contribution margin provides management and users of the financial statements information about our ability to cover our fixed operating costs, such as technology and general and administrative expenses. Contribution and Contribution Margin are used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. You should review our financial statements and publicly-filed reports in their entirety and not rely on any single financial measure. The material limitation associated with the use of Contribution is that it is an incomplete measure of profitability as it does not include all operating expenses or non-operating income and expenses. Management compensates for these limitations when using this measure by looking at other GAAP measures, such as operating income (loss) and net income (loss). For further details on Contribution, see the calculation of this non-GAAP measure below (in thousands)

	Three months ended March 31,			
		2008 (Restated)		**2009 (Restated)**
Total revenue, net	$	201,800	$	185,729
Cost of goods sold		167,188		149,598
Gross profit		34,612		36,131
Less: Sales and marketing expense		15,023		13,587
Contribution	$	19,589	$	22,544
Contribution margin		9.7%		12.1%

Free Cash Flow. Free cash flow (a non-GAAP financial measure) reflects an additional way of viewing our cash flows and liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows and liquidity. Free cash flow, which we reconcile to Net cash provided by (used in) operating activities , is cash flows from operations reduced by Expenditures for fixed assets, including internal-use software and website development. We believe that cash flows from operating activities is an important measure, since it includes both the cash impact of the continuing operations of the business and changes in the balance sheet that impact cash. However, we believe free cash flow is a useful measure to evaluate our business since purchases of fixed assets are a necessary component of ongoing operations and free cash flow measures the amount of cash we have available for future investment, debt retirement or other changes to our capital structure after we have paid all of our expenses. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows as calculated below (in thousands):

	Three months ended March 31,	
(in thousands)	**2008 (Restated)**	**2009 (Restated)**

Net cash used in operating activities	$	(41,111)	$	(27,030)
Expenditures for fixed assets, including internal-use software and website development		(1,313)		(1,736)
Free cash flow	$	(42,424)	$	(28,766)

Government Regulation

All of our services are subject to federal and state consumer protection laws including laws protecting the privacy of consumer non-public information and regulations prohibiting unfair and deceptive trade practices. In particular, under federal and state financial privacy laws and regulations, we must provide notice to consumers of our policies on sharing non-public information with third parties, must provide advance notice of any changes to our policies and, with limited exceptions, must give consumers the right to prevent sharing of their non-public personal information with unaffiliated third parties. Furthermore, the growth and demand for online commerce could result in more stringent consumer protection laws that impose additional compliance burdens on online companies. These consumer protection laws could result in substantial compliance costs and could interfere with the conduct of our business.

In many states, there is currently great uncertainty whether or how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet and commercial online services. These issues may take years to resolve. In addition, new state tax regulations may subject us to additional state sales and income taxes. New legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business or the application of existing laws and regulations to the Internet and commercial online services could result in significant additional taxes on our business. These taxes could have an adverse effect on our cash flows and results of operations. Furthermore, there is a possibility that we may be subject to significant fines or other payments for any past failures to comply with these requirements.

Factors that May Affect Future Results

Any investment in our securities involves a high degree of risk. Investors should consider carefully the risks and uncertainties described in this Form 10-Q/A, and all other information in this Form 10-Q/A and in our other filings with the SEC including those we file after we file this Form 10-Q/A, before deciding whether to purchase or hold our securities.

Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm our business. The occurrence of any of the risks described in under Risk Factors in our most recent Annual Report on Form 10-K or herein could harm our business. The trading price of our securities could decline due to any of these risks and uncertainties, and investors may lose part or all of their investment.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not use derivative financial instruments in our investment portfolio and have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents, trade accounts and contracts receivable, accounts payable and long-term obligations. We consider investments in highly-liquid instruments with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents.

Our exposure to market risk for changes in interest rates relates primarily to our short-term investments and short-term obligations; thus, fluctuations in interest rates would not have a material impact on the fair value of these securities. However, the fair values of our investments may be subject to fluctuations due to volatility of the stock market in general, investment-specific circumstances, and changes in general economic conditions.

At March 31, 2009, we had $74.5 million in cash and cash equivalents. Hypothetically, an increase or decrease in interest rates of one hundred basis points would have an estimated annual impact of $745,000 on our earnings or loss, or the fair market value or cash flows of these instruments.

At March 31, 2009, we had $61.7 million of 3.75% Convertible Senior Notes due 2011 (Senior Notes) outstanding which bear interest at a fixed rate of 3.75%. At March 31, 2009, there were no borrowings outstanding under our lines of credit, and letters of credit totaling $2.0 million were outstanding under our credit facilities.

The fair value of the Senior Notes is sensitive to interest rate changes. Interest rate changes would result in increases or decreases in the fair value of the Senior Notes, due to differences between market interest rates and rates in effect at the inception of the obligation. Unless we elect to repurchase our Senior Notes in the open market, changes in the fair value of Senior Notes have no impact on our cash flows or consolidated financial statements. The estimated fair value of our Senior Notes as of March 31, 2009 was $36.9 million.

ITEM 4. CONTROLS AND PROCEDURES (RESTATED)

Restatement

On January 29, 2010, the Audit Committee of the Board of Directors of the Company concluded, based on management s recommendation, that we would restate (1) our consolidated financial statements as of and for the year ended December 31, 2008 (however, only the restatement of the balance sheet is presented herein) and (2) our consolidated financial statements as of and for the three months ended March 31, 2008 and 2009 within our Form 10-Q/A to correct the following errors:

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- Accounting for amounts that we pay our drop ship fulfillment partners and an amount due from a vendor that went undiscovered for a period of time. Specifically, these errors related to (1) amounts we paid to partners or deducted from partner payments related to return processing services and product costs and (2) amounts we paid to a freight vendor based on incorrect invoices from the vendor. Once discovered, we applied gain contingency accounting for the recovery of such amounts, which was an inappropriate accounting treatment.

- Amortization of the expense related to restricted stock units. Previously the expense was based on the actual three year vesting schedule, which incorrectly understated the expense as compared to a three year straight line amortization. We also corrected for the use of an outdated forfeiture rate in calculating share-based compensation expense under the plans.

The following additional adjustments were also included in this restatement:

- Correction of certain amounts related to customer refunds and credits.

- Recognition of co-branded credit card bounty revenue and promotion expense over the estimated term of the credit card relationships. Previously the revenue was incorrectly recognized when the card was issued.

- Reduction in the restructuring accrual and correction of the related expense due to a 2008 sublease benefit which was previously excluded from the accrual calculation and the accretion of interest expense related to the restructuring accrual, which was not previously recorded.

- Change in our accounting for external audit fees to the as incurred method instead of the ratable method.

- Other miscellaneous adjustments, none of which were material either individually or in the aggregate. Certain of these adjustments were related to a reduction in revenue and cost of goods sold in equal amounts for certain consideration we received from vendors, an increase in inventory, accounts payable and accrued liabilities to record our sales return allowance on a gross basis, an adjustment to our cash and restricted cash balances due to compensating balance arrangements and an adjustment to record redeemable common stock for certain shares previously issued to employees.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified by the Commission s rules and forms.

Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are properly recorded, processed, summarized and reported within the time periods required by the Commission s rules and forms.

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer (principal executive officer) and Senior Vice President, Finance (principal financial officer), of the effectiveness of the design and operation of these disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e), as of March 31, 2009. Based on this evaluation, the Chief Executive Officer (principal executive officer) and Senior Vice President, Finance (principal financial officer) concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this Quarterly Report on Form 10-Q/A due to the following material weaknesses:

- We lacked a sufficient number of accounting professionals with the necessary knowledge, experience and training to adequately account for and perform adequate supervisory reviews of significant transactions that resulted in misapplications of GAAP.

- Information technology program change and program development controls were inadequately designed to prevent changes in our accounting systems which led to the failure to appropriately capture and process data.

Changes in Internal Control Over Financial Reporting

None.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under Item 1 of Part I, Financial Statements Note 9 Commitments and Contingencies, subheading Legal Proceedings, contained in the Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

ITEM 1A. RISK FACTORS

Item 1A, (Risk Factors) of our most recently filed Form 10-K/A sets forth information relating to important risks and uncertainties that could materially affect our business, financial condition or operating results. There have been no material changes from the Risk Factors described in our Annual Report on Form 10-K/A; however, those Risk Factors continue to be relevant to an understanding of our business, financial condition and operating results and, accordingly, you should review and consider such Risk Factors in making any investment decision with respect to our securities. An investment in our securities continues to involve a high degree of risk.

Available Information

Our Internet website address is http://www.overstock.com or http://investors.overstock.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our Internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov. Our Internet website and the information contained therein or connected thereto are not a part of or incorporated into this Quarterly Report on Form 10-Q or any other filings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth all purchases made by or on behalf of the Company or any affiliated purchaser as defined in Rule 10b-18(a)(3) under the Exchange Act, of shares of the Company s common stock made during each month within the first quarter of 2009, including all purchases made pursuant to publicly announced plans or programs and those not made pursuant to publicly announced plans or programs. Column (a) sets forth the total number of shares purchased, and the footnotes to the table disclose the number of shares purchased other than pursuant to a publicly announced plan or program and the nature of any such purchases. Column (b) sets forth the average price paid per share. Column (c) sets forth the total number of shares purchased as part of publicly announced repurchase plans or programs. Column (d) sets forth the maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs.

The footnotes to the table indicate the date each plan or program was announced, the dollar amount or share amount approved, the expiration date, if any, of each plan or program, each plan or program that has expired during the period covered by the table, and each plan or program the Company has determined to terminate prior to expiration, or under which the Company does not intend to make further purchases.

Period	**(a) Total Number of Shares (or Units) Purchased**	**(b) Average Price Paid per Share or Unit**	**(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
January 1, 2009 to January 31, 2009	34,600(1)	$ 9.25		$
February 1, 2009 to February 28, 2009	636(1)	$ 11.22		$
March 1, 2009 to March 31, 2009		$		$
Total	35,236(1)			$

(1) Represents shares withheld for minimum tax witholdings upon the vesting of a portion of certain restricted stock unit grants.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

10.1 Offer Letter to Stephen J. Chesnut dated December 18, 2008 (incorporated by reference to exhibit 10.1 to our Report on Form 8-K dated January 5, 2009).

10.2 Amended and Restated Loan Security Agreement dated January 6, 2009 with Wells Fargo Retail Finance, LLC (incorporated by reference to exhibit 10.1 to our Report on Form 8-K dated January 6, 2009).

10.3 Note Purchase Agreement with Mountain Reservations, Inc. and Castles Travel, Inc. dated January 21, 2009 (incorporated by reference to exhibit 10.1 to our Report on Form 8-K dated January 26, 2009).

10.4 Lease Termination Agreement with Landmark Building One, LLC dated March 20, 2009 (incorporated by reference to exhibit 10.1 to our Report on Form 8-K dated March 23, 2009).

31.1 Exhibit 31.1 Certification of Chief Executive Officer

31.2 Exhibit 31.2 Certification of Chief Financial Officer

32.1 Exhibit 32.1 Section 1350 Certification of Chief Executive Officer

32.2 Exhibit 32.2 Section 1350 Certification of Chief Financial Officer

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SIGNATURE

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.

Date: March 31, 2010

OVERSTOCK.COM, INC.

/s/ Stephen J. Chesnut
Stephen J. Chesnut
Senior Vice President, Finance and Risk Management