

Edgar Filing: HOMESTORE COM INC - Form 10-Q/A

HOMESTORE COM INC  
Form 10-Q/A  
March 29, 2002

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

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FORM 10-Q/A

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

For the Quarter Ended March 31, 2001

OR

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

For the Quarter Ended March 31, 2001

Commission File Number 000-26659

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

Delaware	95-4438337
(State of Other Jurisdiction	(I.R.S. Employer
Incorporation or of Organization)	Identification Number)

30700 Russell Ranch Road	
Westlake Village, California	91362
(Address of Principal Executive Office)	(Zip Code)

(805) 557-2300  
(Registrant's Telephone Number, Including Area Code)

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

Yes  No

At April 30, 2001, the registrant had 107,490,834 shares of its common  
stock outstanding.

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## INDEX

THIS 10-Q/A IS BEING FILED FOR THE PURPOSE OF AMENDING AND RESTATING ITEMS 1 AND 2 OF PART I OF FORM 10-Q TO REFLECT THE RESTATEMENT OF OUR CONSOLIDATED FINANCIALS AS OF AND FOR THE PERIOD ENDED MARCH 31, 2001. WE HAVE MADE NO FURTHER CHANGES TO THE PREVIOUSLY FILED FORM 10-Q OTHER THAN TO THE BALANCE SHEET AS OF DECEMBER 31, 2000, WHICH WAS PREVIOUSLY RESTATED IN THE ANNUAL REPORT ON FORM 10-K/A FILED ON MARCH 12, 2001. ALL INFORMATION IN THIS FORM 10-Q/A IS AS OF MARCH 31, 2001 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE AFOREMENTIONED RESTATEMENT AND THE DESCRIPTION OF LITIGATION IN NOTE 14 TO THE CONSOLIDATED FINANCIAL STATEMENTS.

	Page
	----
PART I--FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
Homestore.com, Inc. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets.....	1
Unaudited Consolidated Statements of Operations.....	2
Unaudited Consolidated Statements of Cash Flows.....	3
Notes to Unaudited Condensed Consolidated Financial Statements.....	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
SIGNATURES.....	24

i

## PART I. FINANCIAL INFORMATION

### ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HOMESTORE.COM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

#### ASSETS

##### Current assets:

Cash and cash equivalents.....	
Short-term investments.....	
Marketable equity securities.....	
Accounts receivable, net.....	

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Current portion of notes receivable.....	
Current portion of prepaid distribution expense.....	
Other current assets.....	
Total current assets.....	
Prepaid distribution expense, net of current portion.....	
Property and equipment, net.....	
Intangible assets, net.....	
Restricted cash.....	
Other long-term assets.....	
Total assets.....	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable.....	
Accrued liabilities.....	
Deferred revenue from related parties.....	
Deferred revenue.....	
Total current liabilities.....	
Distribution obligation.....	
Other.....	
Total liabilities.....	
Commitments and contingencies (Note 13)	
Stockholders' equity:	
Convertible preferred stock.....	
Common stock.....	
Additional paid-in capital.....	
Treasury stock.....	
Notes receivable from stockholders.....	
Deferred stock-based charges.....	
Accumulated other comprehensive loss.....	
Accumulated deficit.....	
Total stockholders' equity.....	
Total liabilities and stockholders' equity.....	

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

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Revenues (including non-cash equity charges, see note 10)	.....
Revenues from related parties	.....
Total revenues	.....
Cost of revenues (including non-cash equity charges, see note 10)	.....
Gross profit	.....
Operating expenses:	
Sales and marketing (including non-cash equity charges, see note 10)	.....
Product development (including non-cash equity charges, see note 10)	.....
General and administrative (including non-cash equity charges, see note 10)	.....
Amortization of intangible assets	.....
Acquisition and reorganization charges	.....
Total operating expenses	.....
Loss from operations	.....
Interest income, net	.....
Other expense, net	.....
Net loss	.....
Basic and diluted net loss per share	.....
Shares used to calculate basic and diluted net loss per share	.....

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

HOMESTORE.COM, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

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Cash flows from operating activities:

Net loss.....

Adjustments to reconcile net loss to net cash provided by (used in) operating activities:

Depreciation.....

Amortization of intangible assets.....

Accretion of distribution obligation.....

Provision for doubtful accounts.....

Stock-based charges.....

Write-down of investments.....

Other non-cash items.....

Changes in operating assets and liabilities, net of acquisitions:

    Accounts receivable.....

    Prepaid distribution expense.....

    Other assets.....

    Accounts payable and accrued liabilities.....

    Deferred revenue from related parties.....

    Deferred revenue.....

Net cash provided by (used in) operating activities.....

Cash flows from investing activities:

Purchases of property and equipment.....

Purchases of short-term investments.....

Maturities of short-term investments.....

Purchases of cost and equity investments.....

Acquisitions, net of cash acquired.....

Other.....

Net cash provided by (used in) investing activities.....

Cash flows from financing activities:

Proceeds from payment of stockholders' notes.....

Proceeds from exercise of stock options, warrants and share issuances under employee  
stock purchase plan.....

Net proceeds from issuance of common and preferred stock.....

Repayment of notes payable.....

Issuance of notes receivable.....

Net cash provided by financing activities.....

Increase in cash and cash equivalents.....

Cash and cash equivalents, beginning of period.....

Cash and cash equivalents, end of period.....

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

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### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BUSINESS:

Homestore.com, Inc. ("Homestore" or the "Company") has created an online marketplace that is the leading destination on the Internet for home and real estate-related information, products and services, based on the number of visitors, time spent on the web sites and number of property listings. Through its network of web sites, the Company provides a wide variety of information and tools for consumers, and is the leading supplier of online media and technology solutions for real estate industry professionals, advertisers and providers of home and real estate-related products and services. To provide consumers with real estate listings, access to real estate professionals and other home and real estate-related information and resources, the Company has established relationships with key industry participants. These participants include real estate market leaders such as the National Association of REALTORS(R) ("NAR"), the National Association of Home Builders ("NAHB"), the largest Multiple Listing Services ("MLSs"), the NAHB Remodelers Council, the National Association of the Remodeling Industry ("NARI"), the American Institute of Architects ("AIA"), the Manufactured Housing Institute ("MHI"), real estate franchises, brokers, builders and agents. The Company also has distribution agreements with a number of leading Internet portal web sites.

#### 2. BASIS OF PRESENTATION:

The Company's interim financial statements have been prepared in accordance with generally accepted accounting principles including those for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by generally accepted accounting principles for complete financial statements. These statements are unaudited and, in the opinion of management, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation, have been included. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10-K/A for the year ended December 31, 2000 filed with the Securities and Exchange Commission ("SEC") on March 12, 2002. That form 10-K/A reflects a restatement of the December 31, 2000 balance sheet which is presented herein on the restated basis in this Form 10-Q/A. The results of operations for these interim periods are not necessarily indicative of the operating results for a full year. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These financial statements have been restated from a previously filed Form 10-Q as described in Note 4.

Since inception, the Company has incurred losses from operations. As of March 31, 2001, the Company had an accumulated deficit of \$401.6 million, cash and cash equivalents of \$270.7 million and short-term investments of \$19.1 million. The Company has no material financial commitments other than those under operating lease agreements and distribution and marketing agreements. The Company currently anticipates that its existing cash and cash equivalents, and any cash generated from operations will be sufficient to fund the Company's operating activities, capital expenditures and other obligations through at least the next 12 months. However, in the longer term, the Company faces significant risks associated with the successful execution of its business strategy and may need to raise additional capital in order to fund more rapid expansion, to expand its marketing activities, to develop new or enhance existing services or products, to satisfy our obligation to AOL and to respond to competitive pressures or to acquire complementary services, businesses or technologies. If the Company is not successful in generating sufficient cash flow from operations, the Company may need to raise additional capital through

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public or private financing, strategic relationships or other arrangements. This additional capital, if needed, might not be available on terms acceptable to the Company, or at all. The failure to raise sufficient capital when needed could have a material adverse effect on the Company's business, results of operations and financial condition. If additional capital were raised through the issuance of equity securities, the percentage of the Company's stock owned by the Company's then-current stockholders would be reduced. Furthermore, such equity securities might have rights, preferences or privileges senior to those of the Company's common and preferred stock. In addition the Company's liquidity could be adversely impacted by the litigation referred to in Note 14.

### 3. RECENT ACCOUNTING DEVELOPMENTS:

Effective January 1, 2001, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." The statement requires the recognition of all derivatives as either assets or liabilities in the balance sheet and the measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the

4

planned use of the derivative and the resulting designation. Because the Company does not currently hold any derivative instruments and does not engage in hedging activities, the adoption of SFAS No. 133 in the first quarter of 2001 did not have an impact on the Company's financial position, results of operations or cash flows.

As described in Note 4, the Company elected to early adopt EITF 01-9 "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)".

### 4. RESTATEMENT AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT:

On December 21, 2001, the Company announced that the Audit Committee of its Board of Directors was conducting an inquiry of certain of the Company's accounting practices and that the results of the inquiry to date determined that certain of its financial statements would require restatement. The Audit Committee retained independent counsel and independent accountants to assist in connection with the inquiry. On January 2, 2002, the Company concluded, based on preliminary findings of the inquiry, that its financial statements for each of the three quarters ended, September 30, 2001 would be restated. On February 13, 2002, the Company concluded, based upon preliminary findings of the inquiry, that its financial statements, as of, and for the year ended December 31, 2000, including certain interim periods, would be restated. On March 11, 2002, the Audit Committee concluded its inquiry. The results of the inquiry determined that for the three-month period ended March 31, 2001, certain transactions resulting in revenue recognition of \$24.5 million had been improperly recorded as independent cash transactions, when, in fact, they were reciprocal exchanges that should have been evaluated as barter transactions. The Company determined that there was insufficient support to establish the fair value of these barter exchanges and thus the related revenue has been reversed. Although the ultimate impact of these adjustments will be to reduce both revenues and expenses, because some of the transactions take place over several accounting periods, and because certain payments for goods and services by the Company were capitalized when initially recorded, operating results for the year 2001 and future periods are impacted. The effect of reversing the revenue associated with certain of these transactions required offsetting adjustments to various asset and liability accounts, including: accounts receivable, notes receivable, property and equipment, other assets, accrued liabilities and deferred revenue. In

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addition, the results of the inquiry determined that for the three-month period ended March 31, 2001, revenue of \$15.6 million was improperly recognized on the sale of certain software products and services. The transactions did not meet the revenue recognition requirements of SOP 97-2 due to the existence of other performance commitments and, accordingly, the revenue should have been deferred through March 31, 2001.

The restated financial statements also include the effects of the Company's early adoption of EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" which was issued in February 2002. This consensus requires companies to report certain consideration given by a vendor to a customer as a reduction in revenue. Upon adoption, companies are required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement display requirements of the consensus. The Company has adopted this consensus and the effect on the three-month period ended March 31, 2001 was to reduce previously reported revenue and expense by \$1.6 million with no effect on net loss or net loss per share. The effect on the three-month period ended March 31, 2000 was to reduce previously reported revenue and expense by \$0.9 million.

As a result of these items, for the three-month period ended March 31, 2001, the Company has reduced its previously reported revenue by \$41.7 million and increased its net loss from \$67.1 million to \$99.8 million and increased its net loss per share of \$(.71) to \$(1.05). For the three-month period ended March 31, 2000, the Company has reduced its previously reported revenue by \$0.9 million and there was no effect on its net loss or its net loss per share.

Additionally, the Company reclassified \$13.4 million in previously reported cash and cash equivalents to restricted cash as a result of certain collateralized lease and other obligations.

Following are reconciliations of the Company's financial position and results of operations and cash flows from financial statements previously filed to these restated financial statements.

5

PAGE>

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONSOLIDATED BALANCE SHEET  
(in thousands)

	As -- Reported -----
ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 284,152
Short-term investments.....	19,078
Marketable equity securities.....	4,459
Accounts receivable, net.....	59,227
Current portion of notes receivable.....	7,299



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Current portion of prepaid distribution expense.....	46,557
Other current assets.....	34,083
	-----
Total current assets.....	454,855
Prepaid distribution expense, net of current portion.....	145,732
Property and equipment, net.....	71,341
Intangible assets, net.....	991,052
Restricted cash.....	90,000
Other assets.....	31,543
	-----
Total assets.....	\$ 1,784,523
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable.....	\$ 35,257
Accrued liabilities.....	85,156
Deferred revenue from related parties.....	-
Deferred revenue.....	76,226
	-----
Total current liabilities.....	196,639
Distribution obligation.....	193,551
Other.....	4,919
	-----
Total Liabilities.....	395,109
	-----
Commitments and contingencies (Note 13)	
Stockholders' equity:	
Common stock.....	107
Additional paid-in capital.....	1,867,616
Treasury stock.....	(17,531)
Notes receivable from stockholders.....	(6,006)
Deferred stock-based charges.....	(114,480)
Accumulated other comprehensive income.....	(2,242)
Accumulated deficit.....	(338,050)
	-----
Total stockholders' equity.....	1,389,414
	-----
Total liabilities and stockholders' equity.....	\$ 1,784,523
	=====

6

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONSOLIDATED STATEMENT OF OPERATIONS  
(in thousands, except per share amounts)

	Three Month
	-----
As	
Reported	Adjustment
-----	-----

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Revenues.....	\$ 105,491	\$ (42,57
Revenues from related parties.....	-	2,47
	-----	-----
Total revenues.....	105,491	(40,09
Cost of revenues.....	28,028	
	-----	-----
Gross profit.....	77,463	(40,09
	-----	-----
Operating expenses:		
Sales and marketing.....	67,013	(6,86
Product development.....	5,484	
General and administrative.....	22,916	(54
Amortization of intangible assets.....	33,788	(2
Acquisition and reorganization charges.....	7,065	
	-----	-----
Total operating expenses.....	136,266	(7,43
	-----	-----
Loss from operations.....	(58,803)	(32,66
Interest income, net.....	4,451	
Other expense, net.....	(12,796)	
	-----	-----
Net loss applicable to common stockholders.....	\$ (67,148)	\$ (32,66
	=====	=====
Basic and diluted net loss per share.....	\$ (.71)	\$ (.3
	=====	=====
Shares used to calculate basic and diluted net loss per share.....	94,925	94,92
	=====	=====
		Three Month
		-----
		As
		Reported
		-----
Revenues.....	\$ 38,599	
Cost of revenues.....	10,758	
	-----	
Gross profit.....	27,841	
	-----	
Operating expenses:		
Sales and marketing.....	39,208	
Product development.....	2,026	
General and administrative.....	11,822	
Amortization of intangible assets.....	8,392	
Acquisition-related and other charges.....	-	
	-----	
Total operating expenses.....	61,448	
	-----	
Loss from operations.....	(33,607)	
Interest income, net.....	4,409	
Other expense, net.....	(14)	
	-----	

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Net loss applicable to common stockholders.....	\$ (29,212)
	=====
Basic and diluted net loss per share.....	\$ (.39)
	=====
Shares used to calculate basic and diluted net loss per share.....	74,052
	=====

7

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS  
(in thousands)

	Three Months ----- As Reported -----
Cash flows from operating activities:	
Net loss.....	\$ (67,148)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation.....	4,486
Amortization of intangible assets.....	33,788
Accretion of distribution obligation.....	3,703
Provision for doubtful accounts.....	1,526
In-process research and development.....	--
Stock-based charges.....	21,295
Write-down of investments.....	11,092
Other non-cash items.....	(4,488)
Changes in operating assets and liabilities, net of acquisitions:	
Accounts receivable.....	2,846
Prepaid distribution expense.....	6,780
Other assets.....	3,113
Accounts payable and accrued liabilities.....	21,947
Deferred revenue from related parties.....	31,648
Deferred revenue.....	-----
Net cash provided by operating activities.....	70,588
Cash flows from investing activities:	
Purchases of property and equipment.....	(11,757)
Purchases of short-term investments.....	(20,229)
Maturities of short-term investments.....	75,492
Purchases of cost and equity investments.....	--
Acquisitions, net of cash acquired.....	(38,562)
Net cash provided by investing activities.....	-----
Net cash provided by investing activities.....	4,944
Cash flows from financing activities:	
Proceeds from payment of stockholders' notes.....	956

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Proceeds from exercise of stock options, warrants and share issuances	
under employee stock purchase plan.....	29,597
Net proceeds from issuance of common and preferred stock.....	-
Transfer to restricted cash.....	-
Repayment of notes payable.....	(468)
Issuance of notes receivable.....	(2,450)
Subsidiary equity transactions.....	-
	-----
Net cash provided by financing activities.....	27,635
	-----
Change in cash and cash equivalents.....	103,167
Cash and cash equivalents, beginning of period.....	180,985
	-----
Cash and cash equivalents, end of period.....	\$ 284,152
	=====

8

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

### 5. STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS:

The increase in stockholders' equity during the first quarter of 2001 was primarily the result of the acquisitions of Move.com, Inc. and Welcome Wagon International, Inc., or collectively referred to as the Move.com Group in which the Company issued approximately 21.4 million shares of its common stock and assumed approximately 3.2 million outstanding stock options of Move.com, Inc. The acquisition resulted in an increase to additional paid-in capital of approximately \$780.0 million.

The components of comprehensive loss are as follows (in thousands):

Net loss.....	
Unrealized gains (losses) on marketable equity securities.....	
Foreign currency translation.....	
Comprehensive loss.....	

In connection with a marketing agreement providing for a multi-faceted marketing program, the Company issued 600,000 shares of its common stock, the fair market value of which was \$11.1 million on the date of issuance of the shares. The \$11.1 million was recorded as deferred stock-based charges and is being amortized over the five-year term of the agreement. The counterparty to the marketing agreement also entered into a marketing and web services agreement with the Company for \$15.0 million in cash which is payable over the five-year term of the agreement. The Company is recording these transactions on a net

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basis.

### 6. ACQUISITION AND REORGANIZATION CHARGES:

In the first quarter of 2001, the Company incurred one-time acquisition and reorganization charges of \$7.1 million from the acquisition of the Move.com Group. Included in these charges were stay bonuses, severance, and facilities shut-down costs associated with this acquisition. No accruals have been made for expenses incurred beyond March 31, 2001.

### 7. IMPAIRMENT OF INVESTMENTS:

During the three-month period ended March 31, 2001, the Company recorded a charge of approximately \$11.1 million based on the impairment of a portion of the Company's portfolio of cost investments. The impairment of these investments to their net realizable values was based on a review of the companies' financial conditions, cash flow projections and operating performances.

### 8. ACQUISITIONS:

In January 2001, the Company acquired certain assets and licenses and assumed certain liabilities from Internet Pictures Corporation ("iPIX") for \$8.1 million in cash and a note in the amount of \$2.25 million. The acquisition has been accounted for as a purchase. The acquisition cost has been preliminarily allocated to the assets acquired based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately \$8.1 million has been preliminarily allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives ranging from three to five years. The results of operations for iPIX for periods prior to the acquisition were not material to the Company and accordingly, pro forma results of operations have not been presented.

In January 2001, the Company acquired certain assets and assumed certain liabilities from Computers for Tracts, Inc. ("CFT") for approximately \$4.5 million in cash and 162,850 shares of the Company's common stock valued at \$5.0 million. The acquisition has been accounted for as a purchase. The acquisition cost has been preliminarily allocated to the assets acquired based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately \$8.1 million has been preliminarily allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives ranging from three to five years. The results of operations for CFT for periods prior to the acquisition were not material to the Company and accordingly, pro forma results of operations have not been presented.

In February 2001, the Company acquired all the outstanding shares of HomeWrite, Inc. ("HomeWrite") in exchange for 196,549 shares of the Company's common stock valued at \$5.6 million and assumed the HomeWrite Stock option plan consisting of 196,200 stock options with an estimated fair value of \$4.5 million. The acquisition has been accounted for as a purchase. The acquisition cost has been preliminarily allocated to the assets acquired based on their

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respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately \$11.8 million has been preliminarily allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives ranging from three to five years. The results of operations for HomeWrite for periods prior to the acquisition were not material to the Company and accordingly, pro forma results of operations have not been presented.

In February 2001, the Company acquired certain assets and assumed certain liabilities from Homebid.com, Inc. ("Homebid") for approximately \$3.5 million in cash. The acquisition has been accounted for as a purchase. The acquisition cost has been preliminarily allocated to the assets acquired based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately \$2.5 million has been preliminarily allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives ranging from three to five years. The results of operations for Homebid for periods prior to the acquisition were not material to the Company and accordingly, pro forma results of operations have not been presented.

### 9. RELATED PARTY TRANSACTIONS:

In February 2001, the Company completed the acquisitions of the Move.com Group from Cendant Corporation ("Cendant") in an all stock transaction valued at \$757.3 million. In connection with the acquisition, the Company issued an aggregate of 21.4 million shares of the Company's common stock in exchange for all the outstanding shares of capital stock of the Move.com Group and assumed approximately 3.2 million outstanding stock options of Move.com, Inc. Cendant is restricted in its ability to sell the Homestore.com shares it received in the acquisition and has agreed to vote such shares on all corporate matters in proportion to the voting decisions of all other stockholders. In addition, Cendant has agreed to a ten-year standstill agreement that, under most conditions, prohibits Cendant from acquiring additional Homestore.com shares. The acquisition has been accounted for as a purchase. The acquisition cost has been preliminarily allocated to assets acquired and liabilities assumed based on estimates of their respective fair values. The excess of purchase consideration over net tangible assets acquired of \$799.2 million has been preliminarily allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over estimated lives ranging from two to fifteen years.

In connection with and contingent upon the closing of the acquisition of the Move.com Group, the Company entered into a series of commercial agreements for the sale of various technology and subscription-based products to Real Estate Technology Trust ("RETT"), an independent trust established in 1996 to provide technology services and products to Cendant's real estate franchisees that is considered a related party of the Company. Under the commercial agreements, RETT committed to purchase \$75.0 million in products to be delivered to agents, brokers and other Cendant real estate franchisees over the next three years. Revenues from RETT and Cendant in the three-month period ended March 31, 2001 were \$2.5 million and are reported separately in these financial statements. It is not practical to determine the related costs of such revenues.

The following summarized unaudited pro forma financial information includes the acquisition of the Move.com Group as if it had occurred at the beginning of each period (in thousands, except per share amounts):

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Revenues.....  
Net loss.....  
Net loss per share:  
    Basic and diluted.....  
    Weighted average shares.....

10. STOCK-BASED CHARGES:

10

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under APB No. 25, compensation expense is recognized over the vesting period based on the difference, if any, on the date of grant between the fair value of the Company's stock and the exercise price on the date of grant. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods and Services."

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

Revenues.....  
Cost of revenues.....  
Sales and marketing.....  
Product development.....  
General and administrative.....

11. NET LOSS PER SHARE:

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share amounts):

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Numerator:

Net loss.....

Denominator:

Weighted average shares outstanding.....

Basic and diluted net loss per share.....

12. SEGMENT INFORMATION

Segment information is presented in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This standard is based on a management approach, which requires segmentation based upon the Company's internal organization and disclosure of revenue and operating expenses based upon internal accounting methods. The Company operates in two principal business segments and has other business lines which are aggregated as "other". This is consistent with the data that is made available to the Company's management to assess performance and make decisions. The two business segments consist of professional subscriptions and advertising. The expenses presented below for the two business segments and other exclude an allocation of certain significant operating expenses that the Company views as inseparable, including marketing expenses, such as Internet portal distribution and off-line branding; new product development costs; web site design and maintenance; listings content aggregation; customer care operations; billing and collections; data center hosting costs; corporate expenses, such as finance, legal, internal business systems, human resources and sales; amortization of intangible assets; stock-based charges; and acquisition and reorganization related charges. There are no inter-segment revenues. Assets and liabilities are not allocated to segments for internal reporting purposes.

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

Revenues:

Professional subscriptions.....

Advertising.....

Other.....

Operating expenses:

Professional subscriptions.....



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Advertising.....  
Other.....  
Unallocated.....

Loss from operations.....

Revenues from professional subscriptions for the three-month period ended March 31, 2001 included \$2.5 million of revenue from related parties. There were none in fiscal 2000. In connection with acquisitions in 2001, the Company expanded its segment presentation to include a third, "other" segment. The Company's Welcome Wagon business constitutes \$6.7 million of revenue and \$5.0 million of expense, respectively, in the three-month period ended March 31, 2001, of those amounts included in the "other" classification.

13. COMMITMENTS AND CONTINGENCIES:

From time to time, the Company has been party to various litigation and administrative proceedings relating to claims arising from its operations in the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

On April 25, 2000, the Company received a request for information pertaining to its business from the Antitrust Division of the U.S. Department of Justice, ("DOJ"). The request sought information about the Company's business as it relates to Internet realty sites in the United States, and the Company has responded to that request. Following their review under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 of the Company's acquisition of the Move.com Group from Cendant, the DOJ notified the Company in February 2001 that it would not oppose the closing of the acquisition, but intended to continue its investigation of certain Homestore.com agreements, including certain agreements between the Company and Cendant. The Company is continuing to cooperate with the DOJ with respect to that investigation.

14. SUBSEQUENT EVENTS:

Litigation

Beginning in December 2001 numerous separate complaints purporting to be class actions were filed in various jurisdictions alleging that the Company and certain of its officers and directors violated certain provisions of the Securities Exchange Act of 1934. The complaints contain varying allegations, including that the Company made materially false and misleading statements with respect to our 2000 and 2001 financial results in our filings with the SEC, analysts reports, press releases and media reports. The complaints seek an unspecified amount of damages. These cases are still in the preliminary stages, and it is not possible for the Company to quantify the extent of its potential liability, if any. An unfavorable outcome in these cases could have a material adverse effect on our business, financial condition, cash flows and results of operations. In addition, the costs of defending any litigation can be high and divert management's attention from the day to day operations of the Company's business.

In January 2002 the Company was notified that the SEC had issued a formal order of private investigation in connection with matters relating to the restatement of the Company's financial results. The SEC has requested that the Company provide them with certain documents concerning the restatement of the Company's financial results. The Company is cooperating with the SEC in

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connection with this investigation and its outcome cannot be determined.

12

In February 2002, the Company was notified by Nasdaq of its intent to institute proceedings against the Company to delist its stock from the Nasdaq National Stock Market because, as a result of the restatement, its financial statements had not been filed with the SEC on a timely basis. The Company has requested a hearing on the matter and is working to update its financial statements prior to the hearing. However, the Company cannot assure you that its common stock will continue to be traded on the Nasdaq National Stock Market. In the event the Company's common stock is delisted from the Nasdaq National Market, it could be more difficult to trade the Company's common stock, and the Company cannot assure that a market for its common stock will develop or be sustained.

13

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q/A and the following "Management's Discussion and Analysis of Financial Condition and Results of Operations" include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about themselves so long as they identify these statements as forward-looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact that we make in this Form 10-Q/A are forward-looking. In particular, the statements herein regarding industry prospects and our future results of operations or financial position are forward-looking statements. Forward-looking statements reflect our current expectations and are inherently uncertain. Our actual results may differ significantly from our expectations. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed in our annual report on Form 10-K, as amended on Form 10-K/A, for the year ended December 31, 2000.

On December 21, 2001, we announced that the Audit Committee of our Board of Directors was conducting an inquiry of certain of our accounting practices and that the results of the inquiry to date determined that certain of our financial statements would require restatement. The Audit Committee retained independent counsel and independent accountants to assist in connection with the inquiry. On January 2, 2002, we concluded, based on preliminary findings of the inquiry, that our financial statements for each of the three quarters ended September 30, 2001 would be restated. On February 13, 2002, we concluded, based upon preliminary findings of the inquiry, that our financial statements, as of, and for the year ended December 31, 2000, including certain interim periods, would be restated. On March 11, 2002, the Audit Committee concluded its inquiry. The results of the inquiry determined that for the three-month period ended March 31, 2001, certain transactions resulting in revenue recognition of \$24.5 million had been improperly recorded as independent cash transactions, when, in fact, they were reciprocal exchanges that should have been evaluated as barter transactions. We determined that there was insufficient support to establish the fair value of these barter exchanges and thus the related revenue has been reversed. Although the ultimate impact of these adjustments will be to reduce both revenues and expenses, because some of the transactions take place over several accounting periods, and because certain payments for goods and services by us were capitalized when initially recorded, operating results for the year

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2001 and future periods are impacted. The effect of reversing the revenue associated with certain of these transactions required offsetting adjustments to various asset and liability accounts, including: accounts receivable, notes receivable, property and equipment, other assets, accrued liabilities and deferred revenue. In addition, the results of the inquiry determined that for the three-month period ended March 31, 2001, revenue of \$15.6 million was improperly recognized on the sale of certain software products and services. The transactions did not meet the revenue recognition requirements of SOP 97-2 due to the existence of other performance commitments and, accordingly, the revenue should have been deferred through March 31, 2001.

The restated financial statements also include the effects of our early adoption of EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" which was issued in February 2002. This consensus requires companies to report certain consideration given by a vendor to a customer as a reduction in revenue. Upon adoption, companies are required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement display requirements of the consensus. We have adopted this consensus and the effect on the three-month period ended March 31, 2001 was to reduce previously reported revenue and expense by \$1.6 million with no effect on net loss or net loss per share. The effect on the three-month period ended March 31, 2000 was to reduce previously reported revenue and expense by \$0.9 million.

The consolidated financial statements for the three months ended March 31, 2001 contained herein have been restated to incorporate these adjustments. (See Note 4 to the Consolidated Financial Statements.) As a result of these items, for the three-month period ended March 31, 2001, we have reduced our previously reported revenue by \$41.7 million and increased our net loss from \$67.1 million to \$99.8 million and increased our net loss per share of \$(.71) to \$(1.05). For the three-month period ended March 31, 2000, we have reduced our previously reported revenue by \$0.9 million and there was no effect on our net loss or our net loss per share.

14

### CONSOLIDATED STATEMENT OF OPERATIONS (in thousands, except per share amounts)

	Three Months Ended March 31, 2001				Three M
	As Reported	Adjustments	Accounting Change	Restated	As Reported
Revenues.....	\$ 105,491	\$ (42,576)	\$ (1,574)	\$ 61,341	\$ 38,59
Revenues from related parties.....	-	2,477	-	2,477	
<b>Total revenues.....</b>	<b>105,491</b>	<b>(40,099)</b>	<b>(1,574)</b>	<b>63,818</b>	<b>38,59</b>
Cost of revenues.....	28,028	-	(223)	27,805	10,75
<b>Gross profit.....</b>	<b>77,463</b>	<b>(40,099)</b>	<b>(1,351)</b>	<b>36,013</b>	<b>27,84</b>
Operating expenses:					
Sales and marketing.....	67,013	(6,863)	(1,351)	58,799	39,20
Product development.....	5,484	-	-	5,484	2,02
General and administrative.....	22,916	(549)	-	22,367	11,82

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Amortization of intangible assets.....	33,788	(25)	-	33,763	8,39
Acquisition and reorganization charges	7,065	-	-	7,065	
Total operating expenses.....	136,266	(7,437)	(1,351)	127,478	61,44
Loss from operations.....	(58,803)	(32,662)	-	(91,465)	(33,60)
Interest income, net.....	4,451	-	-	4,451	4,40
Other expense, net.....	(12,796)	-	-	(12,796)	(1
Net loss applicable to common stockholders.....	\$ (67,148)	\$ (32,662)	-	\$ (99,810)	\$ (29,21
Basic and diluted net loss per share..	\$ (.71)	\$ (.34)	-	\$ (1.05)	\$ (.3
Shares used to calculate basic and diluted net loss per share.....	94,925	94,925	94,925	94,925	74,05

Overview

Homestore.com, Inc., or Homestore, has created an online marketplace that is the leading destination on the Internet for home and real estate-related information, products and services, based on the number of visitors, time spent on the web sites and number of property listings. Through our family of web sites, Homestore provides a wide variety of information and tools for consumers, and is the leading supplier of online media and technology solutions for real estate industry professionals, advertisers and providers of home and real estate-related products and services. To provide consumers with real estate listings, access to real estate professionals and other home and real estate-related information and resources, we have established relationships with key industry participants. These participants include real estate market leaders such as the National Association of REALTORS(R), or the NAR, the National Association of Home Builders, or the NAHB, the largest Multiple Listing Services, or MLSs, the NAHB Remodelers Council, the National Association of the Remodeling Industry(R), or NARI, the American Institute of Architects, or AIA, the Manufactured Housing Institute, or MHI, real estate franchises, brokers, builders and agents. We also have distribution agreements with a number of leading Internet portal web sites.

Basis of Presentation

Initial Business and RealSelect Holding Structure. We were incorporated in 1993 under the name of InfoTouch Corporation, or InfoTouch, with the objective of establishing an interactive network of real estate "kiosks" for consumers to search for homes. In 1996, we began to develop the technology to build and operate real estate related Internet sites. Effective December 4, 1996, we entered into a series of agreements with the NAR and several investors. Under these agreements, we transferred technology and assets relating to advertising the listing of residential real estate on the Internet to a newly-formed company, NetSelect LLC, or LLC, in exchange for a 46% ownership interest in LLC. The investors contributed capital to a newly-formed company, NetSelect, Inc., or NSI, which owned 54% of LLC. LLC received capital funding from NSI and in turn contributed the assets and technology contributed by InfoTouch as well as the NSI capital to a newly formed entity, RealSelect, Inc., or RealSelect, in exchange for common stock representing an 85% ownership interest in RealSelect. Also effective December 4, 1996, RealSelect entered into a number of formation agreements with and issued cash and common stock representing a 15% ownership

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interest in RealSelect to the NAR in exchange for the rights to operate the REALTOR.com(R) web site and pursue commercial opportunities relating to the listing of real estate on the Internet.

15

The agreements governing RealSelect required us to terminate our remaining activities, which were insignificant at that time, and dispose of our remaining assets and liabilities, which we did in early 1997. Accordingly, following the formation, NSI, LLC and InfoTouch were shell holding companies for their investments in RealSelect.

Our initial operating activities primarily consisted of recruiting personnel, developing our web site content and raising our initial capital. We developed our first web site, REALTOR.com(R), in cooperation with the NAR and actively began marketing our advertising products and services to real estate professionals in January 1997.

Reorganization of Holding Structure. Under the formation agreements of RealSelect, the reorganization of the initial holding structure was provided for at an unspecified future date. On February 4, 1999, NSI stockholders entered into a non-substantive share exchange with and were merged into InfoTouch. In addition, LLC was merged into InfoTouch. We refer to this transaction as the Reorganization. The share exchange lacked economic substance and, therefore, was accounted for at historical cost. For a further discussion relating to the accounting for the Reorganization, see Notes 1, 2 and 3 of Homestore.com's Notes to the Consolidated Financial Statements included in the annual report on Form 10-K for the year ended December 31, 2000. We (InfoTouch) changed our corporate name to Homestore.com, Inc. in August 1999.

Acquisitions. In January 2001, we acquired certain assets and licenses and assumed certain liabilities from Internet Pictures Corporation, or iPIX for \$8.1 million in cash and a note in the amount of \$2.25 million. In January 2001, we acquired certain assets and assumed certain liabilities from Computers for Tracts, Inc. for approximately \$4.5 million in cash and 162,850 shares of the our common stock valued at approximately \$5.0 million. In February 2001, we acquired all the outstanding shares of HomeWrite, Inc. in exchange for 196,549 shares of our common stock valued at \$5.6 million and assumed the HomeWrite stock option plan consisting of 196,200 stock options with an estimated fair value of \$4.5 million. In February 2001, we acquired certain assets and assumed certain liabilities from Homebid.com, Inc. for approximately \$3.5 million in cash. In February 2001, we completed the acquisitions of Move.com, Inc. and Welcome Wagon International, Inc, or collectively referred to as the Move.com Group, from Cendant Corporation, or Cendant, in an all stock transaction valued at approximately \$757.3 million. In connection with the acquisitions, we issued an aggregate of 21.4 million shares of our common stock in exchange for all the outstanding shares of capital stock of the Move.com Group, and assumed approximately 3.2 million outstanding stock options of Move.com, Inc. Cendant is restricted in its ability to sell the Homestore.com shares it received in the acquisition and has agreed to vote such shares on all corporate matters in proportion to the voting decisions of all other stockholders. In addition, Cendant has agreed to a ten-year standstill agreement that, under most conditions, prohibits Cendant from acquiring additional Homestore.com shares. The acquisitions described above have been accounted for as purchases in accordance with generally accepted accounting principles.

In connection with and contingent upon the close of the acquisition of the Move.com Group, we entered into a series of commercial agreements for the sale of various technology and subscription-based products to Real Estate Technology Trust ("RETT"), an independent trust established in 1996 to provide technology services and products to Cendant's real estate franchisees that is considered a

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related party of the Company. Under the commercial agreements, RETT committed to purchase \$75.0 million in products to be delivered to agents, brokers and other Cendant real estate franchisees over the next three years. Revenues from RETT and Cendant in the three-month period ended March 31, 2001 were \$2.5 million and are reported separately in these financial statements. It is not practical to determine the cost of such revenues.

We anticipate an increase in absolute dollars for revenues, cost of revenues, operating expenses and amortization of intangibles in connection with the Move.com Group acquisition.

We may seek to continue to expand our current offerings by acquiring additional businesses, technologies, product lines or service offerings from third parties. We may be unable to identify future acquisition targets and may be unable to complete future acquisitions. Even if we complete an acquisition, we may have difficulty in integrating it with our current offerings, and any acquired features, functions or services may not achieve market acceptance or enhance our brand loyalty. Integrating newly acquired organizations and products and services could be expensive, time consuming and a strain on our resources.

Three Months Ended March 31, 2001 and 2000

### Revenues

Revenues increased to \$63.8 million for the three months ended March 31, 2001 from revenues of \$37.7 million for the three months ended March 31, 2000. The increase was primarily due to increased revenue from professional subscriptions as well as an increase in advertising revenue.

Subscription revenues, which represented approximately 67% of total revenues for the three months ended March 31, 2001, grew 88% from the three months ended March 31, 2000. The growth in revenue from professional subscriptions was due to

16

increases in the number of professionals on the Homestore.com family of web sites, including sales of subscription-based products related to an independent trust. The number of professional subscriptions increased by 237% to approximately 359,000 compared to totals for the three months ended March 31, 2000 and was driven, in part by the acquisitions of the Move.com Group and iPIX.

Advertising revenues, which represented approximately 22% of total revenues for the three months ended March 31, 2001, declined 5% from the three months ended March 31, 2000. The decrease was driven primarily by a softening in the online advertising market in general. If this softening continues or worsens, our advertising revenues could be adversely affected.

Other revenues which represented approximately 11% of total revenues for the three months ended March 31, 2001 were new revenues from companies acquired in 2001. These acquired companies operated primarily in the direct marketing business.

### Cost of Revenues

Cost of revenues, including non-cash stock-based charges, increased to \$27.8 million for the three months ended March 31, 2001 from cost of revenues of \$10.8 million for the three months ended March 31, 2000. The increase was due primarily to our overall increased sales volume, increased salaries, increase in royalties, and hosting costs during the three months ended March 31, 2001 as compared to the three months ended March 31, 2000. We anticipate continuing

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increases in cost of revenues in absolute dollars as our revenues increase and we continue to make capital investments to increase the capacity of our family of web sites in order to accommodate traffic increases.

Gross margin percentage for the three months ended March 31, 2001 was 56.4%, which declined from gross margin percentage of 71.4% for the three months ended March 31, 2000. The decrease in gross margin percentage was primarily due to a decrease in advertising revenues which historically have larger gross margins.

### Operating Expenses

**Sales and marketing.** Sales and marketing expenses, including non-cash stock-based charges, increased to \$58.8 million for the three months ended March 31, 2001 from sales and marketing of \$38.3 million for the three months ended March 31, 2000. The increase was due to a significant increase in costs associated with Internet portal distribution agreements, and marketing and listing agreements. The increase was also due to increased salaries and commissions. Stock-based charges increased by \$10.8 million to \$19.3 million for the three months ended March 31, 2001 from \$8.5 million for the three months ended March 31, 2000 primarily due to amortization of stock-based charges relating to Internet portal distribution agreements.

**Product development.** Product development expenses, including non-cash stock-based charges, increased to \$5.5 million for the three months ended March 31, 2001 from product development of \$2.0 million for the three months ended March 31, 2000. The increase in product development costs was due to increased costs associated with the continuing expansion of the Homestore.com web sites and the integration of our acquisitions into our family of web sites.

**General and administrative.** General and administrative expenses, including non-cash stock-based charges, increased to \$22.4 million for the three months ended March 31, 2001 from general and administrative expenses of \$11.8 million for the three months ended March 31, 2000. The increase was primarily due to hiring key management personnel and increased staffing levels required to support our significant growth and expanded operations and infrastructure as well as increases in legal and other professional fees. Facility costs increased primarily due to our new corporate and central service offices.

**Amortization of intangible assets.** Amortization of intangible assets was \$33.8 million for the three months ended March 31, 2001 from amortization of \$8.4 million for the three months ended March 31, 2000. The increase in amortization was due to the acquisitions in subsequent quarters of fiscal year 2000, primarily the acquisition of the Move.com Group.

**Acquisition and reorganization charges.** One-time acquisition and reorganization charges were \$7.1 million for the three months ended March 31, 2001 and they relate to the stay bonuses, severance and facilities shut-down costs associated with the acquisition of the Move.com Group. No accruals have been made for expenses incurred beyond March 31, 2001.

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

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	March 31,	
	-----	-----
	2001	2000
	----	----
	(Restated)	(Restated)
Revenues.....	\$ 1,351	\$ 937
Cost of revenues.....	105	198
Sales and marketing.....	19,299	8,486
Product development.....	99	186
General and administrative.....	535	1,007
	-----	-----
	\$ 21,389	\$ 10,814
	=====	=====

Stock-based charges increased by \$10.6 million to \$21.4 million for the three months ended March 31, 2001 from \$10.8 million for the three months ended March 31, 2000 primarily as a result of amortization relating to Internet portal distribution agreements.

Other Expense, Net

Other expense, net, increased to \$12.8 million for the three months ended March 31, 2001 from other expense, net of \$14,000 for the three months ended March 31, 2000. The increase primarily related to an \$11.1 million write-down of a portion, of our portfolio of cost investments to reflect their net realizable values based on our review of the companies' financial conditions, cash flow projections and operating performances. It also includes the accretion of a marketing and distribution agreement of \$3.7 million, offset by miscellaneous other income.

Income Taxes

As a result of operating losses and our inability to recognize a benefit from our deferred tax assets, we have not recorded a provision for income taxes for the three months ended March 31, 2001 and 2000. As of December 31, 2000, we had \$190.8 million of net operating loss carryforwards for federal income tax purposes, which expire beginning in 2007. We have provided a full valuation allowance on our deferred tax assets, consisting primarily of net operating loss carryforwards, due to the likelihood that we may not generate sufficient taxable income during the carry-forward period to utilize the net operating loss carryforwards.

Segment Information

We currently operate in two principal business segments and have other business lines which are aggregated as "other". This is consistent with the data that is made available to our management to assess performance and make decisions. The two business segments consist of professional subscriptions and advertising. For further information regarding segments, refer to Note 12 of the Notes to the Unaudited Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q/A.

Segment revenues. Subscription revenues, which represented approximately 67% of total revenues for the three months ended March 31, 2001, grew 88% from the three months ended March 31, 2000. The growth in revenue from professional subscriptions was due to increases in the number of professionals on the Homestore.com family of web sites, including sales of subscription-based products related to an independent trust. The number of professional subscriptions increased by 237% to approximately 359,000 compared to totals at three months ended March 31, 2000 and was driven, in part by the acquisitions of



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the Move.com Group and iPIX.

Advertising revenues, which represented approximately 22% of total revenues for the three months ended March 31, 2001, declined by 5% from the three months ended March 31, 2000. The decrease was driven primarily by a softening in the on-line advertising market in general.

Other revenues which represented approximately 11% of total revenues for the three months ended March 31, 2001 were new revenues from companies acquired in 2001. These acquired companies operated primarily in the direct marketing business.

Segment expenses. Subscription expenses increased to \$25.4 million for the three months ended March 31, 2001 from subscription expenses of \$11.4 million for the three months ended March 31, 2000. The increase was primarily due to an overall increase in sales volume, increased marketing to our professional customers such as REALTORS and an increase in staffing levels to support our growth. In addition, our acquisitions of Top Producer Systems, Inc. and the Move.com Group also contributed to the increase.

18

Advertising expenses increased to \$12.0 million for the three months ended March 31, 2001 from advertising expenses of \$1.3 million for the three months ended March 31, 2000. The increase was due to an increase in salaries and commissions relating to the increase in advertising sales.

Other expenses were \$5.0 million for the three months ended March 31, 2001. There were no corresponding expenses in 2000.

Unallocated expenses increased to \$112.8 million for the three months ended March 31, 2001 from unallocated expenses of \$58.5 million for the three months ended March 31, 2000. The increase was due to an increase in amortization of intangible assets due to acquisitions, an increase in the stock-based charges primarily relating to the Internet portal distribution agreements and a one-time charge for acquisition and reorganization charges. Also contributing to the increase in unallocated expenses were increases in costs associated with the continuing expansion of our web sites, increases in legal and professional fees, increases in costs relating to marketing and listing agreements, and increases in salaries and staffing levels required to support our significant growth, expanded operations and infrastructure.

### Liquidity and Capital Resources

Cash provided by operating activities of \$61.7 million for the quarter ended March 31, 2001 was attributable to the net loss, offset by non-cash expenses including depreciation, amortization of intangible assets, accretion of distribution obligation, provision for doubtful accounts, stock-based charges, non-cash items related to the acquisition and reorganization and the write-down of investments, aggregating to \$76.2 million. Also contributing to cash provided by operations were the changes in balance sheet accounts, net of acquisitions, of \$85.3 million. Net cash used in operating activities was \$30.2 million for the quarter ended March 31, 2000. Net cash used in operating activities was the result of the net operating loss, offset by non-cash expenses including depreciation, amortization and stock-based charges, aggregating to \$20.2 million. Adding to the cash used in operations were the changes in balance sheet accounts, net of acquisitions, of \$21.2 million.

Cash provided by investing activities of \$13.9 million for the quarter ended March 31, 2001 was attributable to maturities of short-term investments of \$75.5 million offset by purchases of short-term investments of \$20.2 million,

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capital expenditures of \$10.8 million and cash paid for acquisitions of \$30.7 million including acquisition-related costs. Net cash used in investing activities was \$24.8 million for the quarter ended March 31, 2000 was attributable to the purchase of cost and equity investments of \$11.7 million, capital expenditures of \$2.6 million and cash paid for acquisitions of \$11.3 million including acquisition-related costs.

Cash provided by financing activities of \$27.6 million for the quarter ended March 31, 2001 was attributable to the proceeds from exercise of stock options, warrants and share issuances under employee stock purchase plan of \$29.6 million offset by the issuance of notes receivable of \$2.5 million. Cash provided by financing activities of \$395.4 million for the quarter ended March 31, 2000 was attributable to the our follow-on public offering of common stock of \$428.9 million, proceeds from exercise of stock options, warrants and share issuances under employee stock purchase plan of \$4.9 million offset by the repayment of notes payable of \$37.5 million and issuance of notes receivable of \$1.0 million. In January 2000, we completed our follow-on public offering to the public in which we sold 4,073,139 shares of our common stock at a price of \$110 per share, raising approximately \$428.9 million, after deducting underwriting discounts, commissions and offering expenses.

In March 2000, we issued 1,085,271 shares of our common stock with an estimated fair value of approximately \$70.0 million to Budget, Inc., or BGI, in connection with entering into a ten-year strategic alliance agreement that allows us to participate in online and offline BGI marketing activities. In this agreement, we have guaranteed that the price of the shares issued to BGI will be \$64.50 per share on any trading day during the six month period after the second anniversary of the agreement. BGI has the right, during this period, to require us, with respect to each share as to which the right is exercised, in our discretion, to i) pay to BGI an amount in cash equal to the excess of the guaranteed price over the average price of the period ("the Put Amount"), ii) issue and deliver to BGI the number of common stock with a value per share equal to the Put Amount, or iii) repurchase all of the shares of the stock at the guaranteed price.

In April 2000, we entered into a five-year marketing and distribution agreement with America Online, Inc., or AOL. In exchange for entering into this agreement, we paid AOL \$20.0 million in cash and issued to AOL approximately 3.9 million shares of our common stock. In the agreement, we have guaranteed that the 30-day average closing price, related to 60%, 20% and 20% of the shares we issued, will be \$68.50 per share on the third, fourth and fifth anniversaries of the agreement, respectively. This guarantee only applies to shares that continue to be held by AOL at the end of each respective year. At March 31, 2001, we recorded \$193.6 million in other non-current liabilities, which represents the fair market value of the 3.9 million shares of our stock issued upon entering the agreement and the guarantee of the stock. The difference between the total guaranteed amount and the liability recorded is being recorded as other expense over the term of the agreement. In connection

19

with the guarantee, we have established a \$90.0 million letter of credit and are required to pledge an amount equal to the unused portion of the letter of credit. As of March 31, 2001, we have pledged \$90.0 million in cash equivalents towards this letter of credit which is classified as restricted cash on the balance sheet. AOL can draw against this letter of credit in the event that our 30-day average closing price is less than \$68.50 at the end of each respective guarantee date. The letter of credit will be reduced to \$50.0 million at the end of the third anniversary of the agreement. The term of the agreement may be reduced if AOL draws more than \$40.0 million from the letter of credit at the end of the third year anniversary of the agreement.

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Since inception, we have included losses from operations. As of March 31, 2001, we had an accumulated deficit of \$401.6 million, cash and cash equivalents of \$270.7 million and short-term investments of \$19.1 million. We have no material commitments other than those under operating lease agreements and distribution and marketing agreements. We currently anticipate that our existing cash and cash equivalents and any cash generated from operations will be sufficient to fund our operating activities, capital expenditures and other obligations through at least the next 12 months. However in the longer term, we face significant risks associated with the successful execution of our business strategy and may need to raise additional capital in order to fund more rapid expansion, to expand our marketing activities, to develop new or enhance existing services or products, to satisfy our obligations to AOL as described above and to respond to competitive pressures or to acquire complementary services, businesses or technologies. If we are not successful in generating sufficient cash flow from operations, we may need to raise additional capital through public or private financing, strategic relationships or other arrangements. This additional capital, if needed, might not be available on terms acceptable to us, or at all. Our failure to raise sufficient capital when needed could have a material adverse effect on our business, results of operations and financial condition. If additional capital were raised through the issuance of equity securities, the percentage of our stock owned by our then-current stockholders would be reduced. Furthermore, these equity securities might have rights, preferences or privileges senior to those of our common and preferred stock. In addition, our liquidity could be adversely impacted by the litigation referred to in Note 14 to our consolidated financial statements included herein.

### Risk Factors

In addition to the factors discussed in the "Liquidity and Capital Resources" section above and in our Form 10-K/A for the year ended December 31, 2000 under the caption "Risk Factors" and elsewhere, the following additional factors may affect our future results:

### Risks Related to our Business:

- . Our agreement with the National Association of REALTORS(R) could be terminated by it.
- . Our agreement with the NAR contains a number of provisions that could restrict our operations.
- . If our operating agreement for REALTOR.com(R) terminates, the NAR would be able to operate the REALTOR.com(R) web site.
- . We are subject to noncompetition provisions with the NAR which could adversely affect our business.
- . Our agreement with the National Association of Home Builders contains provisions that could restrict our operations.
- . Our SpringStreet.com web site is subject to a number of restrictions on how it may be operated.
- . The NAR could revoke its consent to our operating SpringStreet.com.
- . The National Association of REALTORS(R) has significant influence over aspects of our RealSelect subsidiary's corporate governance.
- . The NAR can restrict a change of control of Homestore.com.

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

We have experienced operating losses in each quarterly and annual period since 1993, and we incurred an operating losses of \$91.5 million and \$33.6 million for the three months ended March 31, 2001 and 2000, respectively. As of March 31, 2001, we had an accumulated deficit of \$401.6 million, and we may continue to incur additional net losses. The size of these net losses will depend, in part, on the rate of growth in our revenues from broker, agent, home builder and rental property owner, web hosting fees, advertising sales and sales of other products and services. The size of our future net losses will also be impacted by non-cash stock-based charges relating to deferred compensation, stock and warrant issuances, and amortization of intangible assets. As of March 31, 2001, we had approximately \$1,097.1 million of deferred stock-based charges and intangible assets to be amortized.

20

It is critical to our success that we continue to devote financial, sales and management resources to developing brand awareness for our web sites as well as for any other products and services we may add. To accomplish this, we will continue to develop our content and expand our marketing and promotion activities, direct sales force and other services. As a result, we expect that our operating expenses will increase significantly during the next several years, especially in sales and marketing. With increased expenses, we will need to generate significant additional revenues to achieve profitability. As a result, we may never achieve or sustain profitability, and, if we do achieve profitability in any period, we may not be able to sustain or increase profitability on a quarterly or annual basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- . We must continue to obtain listings from real estate agents, brokers, homebuilders, Multiple Listing Services and property owners.

We believe that our success depends in large part on the number of real estate listings received from agents, brokers, homebuilders, MLSs and residential, rental and commercial property owners. Many of our agreements with MLSs, brokers and agents to display property listings have fixed terms, typically 12 to 30 months. At the end of the term of each agreement, the other party may choose not to continue to provide listing information to us on an exclusive basis or at all and may choose to provide this information to one or more of our competitors instead. We have expended significant amounts to secure both our exclusive and non-exclusive agreements for listings of real estate for sale and may be required to spend additional large amounts or offer other incentives in order to renew these agreements. If owners of large numbers of property listings, such as large brokers, MLSs, or property owners in key real estate markets choose not to renew their relationship with us, our family of web sites could become less attractive to other real estate industry participants or consumers.

- . We must dedicate significant resources to market our advertising products and services to real estate professionals.
- . It is important to our success that we support our real estate professional customers.

Since many real estate professionals are not sophisticated computer users and often spend limited amounts of time in their offices, it is important that these customers find that our products and services significantly enhance their productivity and are easy to use. To meet these needs, we provide customer training and have developed a customer support organization that seeks to

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respond to customer inquiries as quickly as possible. If our real estate professional customer base grows, we may need to expand our support organization further to maintain satisfactory customer support levels. If we need to enlarge our support organization, we would incur higher overhead costs. If we do not maintain adequate support levels, these customers could choose to discontinue using our service.

- . Our quarterly financial results are subject to significant fluctuations.

Our results of operations could vary significantly from quarter to quarter. In the near term, we expect to be substantially dependent on sales of our subscription products and services. We also expect to incur significant sales and marketing expenses to promote our brand and services. Therefore, our quarterly revenues and operating results are likely to be particularly affected by the number of persons purchasing advertising products and services as well as sales and marketing expenses for a particular period. If revenues fall below our expectations, we will not be able to reduce our spending rapidly in response to the shortfall.

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

- . The amount of advertising sold on our family of web sites and the timing of payments for this advertising;
- . The level of renewals for our subscription products and services by real estate agents, brokers and rental property owners and managers;
- . The amount and timing of our operating expenses and capital expenditures;
- . The amount and timing of non-cash stock-based charges, such as charges related to deferred compensation or warrants issued to real estate industry participants; and
- . Costs related to acquisitions of businesses or technologies.
- . Because we have expanded our operations, our success will depend on our ability to manage our growth.
- . We depend on distribution agreements with a number of Internet portals to generate traffic on our family of web sites.
- . Our family of web sites may not achieve the brand awareness necessary to succeed.

21

In an effort to obtain additional consumer traffic, increase usage by the real estate community and increase brand awareness, we intend to continue to pursue an aggressive online and off-line brand enhancement strategy. These efforts will involve significant expense. If our brand enhancement strategy is unsuccessful, we may fail to attract new or retain existing consumers or real estate professionals, which would have a material adverse impact on our revenues.

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

The barriers to entry for web-based services and businesses are low, making it possible for new competitors to proliferate rapidly. In addition, parties

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with whom we have listing and marketing agreements could choose to develop their own Internet strategies or competing real estate sites upon the termination of their agreements with us. Many of our existing and potential competitors have longer operating histories in the Internet market, greater name recognition, larger consumer bases and significantly greater financial, technical and marketing resources than we do.

- . We must attract and retain personnel while competition for personnel in our industry is intense.
- . We need to continue to develop our content and our product and service offerings.
- . We may experience difficulty in integrating our recent acquisitions.
- . Our business is dependent on our key personnel.
- . We rely on intellectual property and proprietary rights.
- . We may not be able to protect the web site addresses that are important to our business.
- . We could be subject to litigation with respect to our intellectual property rights.
- . We may expand into international markets which may expose us to relatively higher costs and greater risks.

### Real Estate Industry Risks:

- . Our business is dependent on the strength of the real estate industry, which is both cyclical and seasonal.
- . We may particularly be affected by general economic conditions.
- . We have risks associated with changing legislation in the real estate industry.

### Internet Industry Risks:

- . We depend on increased use of the Internet to expand our real estate related advertising products and services.
- . Government regulations and legal uncertainties could affect the growth of the Internet.
- . Taxation of Internet transactions could slow the use of the Internet.
- . We depend on continued improvements to our computer network and the infrastructure of the Internet.
- . Our internal network infrastructure could be disrupted.

Our operations depend upon our ability to maintain and protect our computer systems, located at our corporate headquarters in Westlake Village, California and our other offices in Thousand Oaks, California; Milwaukee, Wisconsin; Scottsdale, Arizona; and San Jose, California. Although we have not experienced any material outages to date, we currently do not have a redundant system for our family of web sites and other services at an alternate site. Therefore, our systems are vulnerable to damage from break-ins, unauthorized access, vandalism, fire, earthquakes, power loss, telecommunications failures and similar events. Although we maintain insurance against fires, earthquakes

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and general business interruptions, the amount of coverage may not be adequate in any particular case.

Experienced computer programmers, or hackers, may attempt to penetrate our network security from time to time. Although we have not experienced any material security breaches to date, a hacker who penetrates our network security could misappropriate proprietary information or cause interruptions in our services. We might be required to expend significant capital and resources to protect against, or to alleviate, problems caused by hackers. We do not currently have a fully redundant system for our family of web sites. We also may not have a timely remedy against a hacker who is able to penetrate our network security. In addition to purposeful security breaches, the inadvertent transmission of computer viruses could expose us to litigation or to a material risk of loss.

22

- . We could face liability for information on our web sites and for products and services sold over the Internet.
- . Our common stock price may be volatile, which could result in substantial losses for individual stockholders.

23

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Homestore.com, Inc. has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 29, 2002

Homestore.com, Inc.

By: /s/ W. Michael Long

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W. Michael Long

Chief Executive Officer

By: /s/ Lewis R. Belote, III

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Lewis R. Belote, III

Chief Financial Officer

24