

HOMESTORE COM INC
Form 10-K405/A
March 12, 2002

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

FORM 10-K/A

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

For the fiscal year ended December 31, 2000

HOMESTORE.COM, INC.
(Exact Name of Registrant as Specified in its Charter)

| | | |
|--------------------------------|--------------|---------------------|
| Delaware | 000-26659 | 95-4438337 |
| (State or Other Jurisdiction | (Commission | (I.R.S. Employer |
| of | File Number) | Identification No.) |
| Incorporation or Organization) | | |

30700 Russell Ranch Road
Westlake Village, California 91362
(805) 557-2300
(Address, Including Zip Code, and Telephone Number, Including Area Code, of
Registrant's Principal Executive Offices)

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$.001 per share

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

Yes [X] No []

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

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amendment to this Form 10-K/A. [X]

| | |
|--|-----------------|
| Aggregate market value of voting stock held by non-affiliates of the registrant as of February 28, 2001..... | \$2,050,176,207 |
| Number of shares of common stock outstanding as of February 28, 2001..... | 106,971,997 |

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the annual meeting of stockholders which was held on May 10, 2002.

Homestore.com, Inc.

Form 10-K/A

For the Fiscal Year Ended December 31, 2000

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SIGNATURES.....

This 10-K/A is being filed for the purpose of amending and restating Items 6, 7, 8 and 14 of Form 10-K to reflect the restatement of our consolidated financial statements for the year ended December 31, 2000.

WE HAVE MADE NO FURTHER CHANGES TO THE PREVIOUSLY FILED FORM 10-K. ALL INFORMATION IN THIS FORM 10-K/A IS AS OF DECEMBER 31, 2000 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE AFOREMENTIONED RESTATEMENT.

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This report contains forward-looking statements based on our current expectations, estimates and projections about our industry, beliefs and certain assumptions made by us. Words such as "believes," "anticipates," "estimates," "expects," "projections," "may," "potential," "plan," "continue" and words of similar import, constitute "forward-looking statements." The forward-looking statements contained in this report involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These factors include those listed under the "Risk Factors" section contained in Item 1 and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 31, 2000 as well as elsewhere herein, and the other documents we file with the Securities and Exchange Commission, or SEC, including our most recent reports on Form 8-K and Form 10-Q, and amendments thereto. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data with the consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K/A.

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 February 13, 2002, we concluded, based on preliminary findings of the inquiry, that our financial statements, as of, and for the year ended, December 31, 2000 would be restated and on March 11, 2002, the Audit Committee concluded its inquiry. The results of the inquiry determined that in the year 2000, certain transactions resulting in the recognition of \$36.4 million in revenue, 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 2000 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 shipment of certain software products, previously recorded as revenue in 2000, did not meet the revenue recognition requirements of SOP 97-2 and, accordingly, \$5 million of revenue should have been deferred at December 31, 2000.

The restated financial statements also include the effects of our 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 us to report certain consideration given by a vendor to a customer as a reduction in revenue. Upon adoption, we are required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement display requirements

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of the consensus. The effect of adoption in the year 2000 was to reduce previously reported revenue and expense by \$7.2 million, with no effect on net loss or net loss per share. The effects of adoption were not material in years prior to 2000.

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The consolidated financial statements for the year ended December 31, 2000 contained herein have been restated to incorporate all these adjustments as described in Note 3 to the Consolidated Financial Statements. As a result of these items, we have reduced our reported revenue by \$48.6 million and increased our net loss from \$115.2 million to \$146.1 million and our net loss per share of \$(1.44) to \$(1.83).

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

The consolidated statement of operations data for the years ended December 31, 2000, 1999 and 1998, and the consolidated balance sheet data as of December 31, 2000 and 1999, are derived from the audited consolidated financial statements of Homestore.com included elsewhere in this Form 10-K/A. The consolidated statement of operations data for the years ended December 31, 1997 and 1996, and the consolidated balance sheet data as of December 31, 1998, 1997 and 1996, have been derived from our audited and unaudited consolidated financial statements not included in this Form 10-K/A. The unaudited consolidated financial statements have been prepared on substantially the same basis as the consolidated audited financial statements and include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial position and results of operations for the period. The unaudited pro forma data for the year ended December 31, 1999 is derived from unaudited pro forma condensed consolidated statement of operations included elsewhere in this Form 10-K/A.

As a result of the reorganization of our holding company structure and due to the fact that our historical results of operations, financial condition and cash flows were insignificant prior to December 4, 1996, management believes that a pro forma presentation, which includes a comparison of results of operations and financial condition of NetSelect, Inc., NetSelect, LLC, Homestore.com and RealSelect on a combined basis for 1998 and 1999 is the only meaningful basis of presentation for investors in evaluating our historical financial performance. See the basis of presentation described in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The unaudited pro forma condensed consolidated statement of operations data assume that the following transactions occurred on January 1, 1999, except for preferred stock issued in connection with an acquisition. For this preferred stock, the weighted average shares reflect the preferred stock as if it had been issued as of January 1, 1999, or the date of issuance, if later:

- . conversion of preferred stock in connection with the initial public offering;
- . our acquisition of SpringStreet for common stock and convertible preferred stock equivalent to an aggregate of 5,309,058 shares of our common stock, with an estimated fair value of \$51.7 million;
- . our acquisition of Homefair for 250,000 shares of our common stock, with an estimated fair value of \$11.2 million, a \$37.5 million promissory note and \$35.8 million in cash and other acquisition-related expenses;

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and

- . the reorganization of our holding company structure in February 1999 by merging NetSelect, Inc. and NetSelect, LLC with InfoTouch.

The unaudited consolidated pro forma data may not, however, be indicative of the consolidated results of operations of Homestore.com that actually would have occurred had the transactions reflected in the unaudited consolidated pro forma results of operations occurred at the beginning of the period presented, or of the consolidated results of operations that we may achieve in the future. The comparison to 1999 and 1998 results are on a pro forma basis, as historical results without pro forma presentation are not comparable or meaningful. No pro forma results for 2000 have been presented as pro forma results of acquired companies in 2000 were not material.

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| | Actual | | | | | Pro Forma |
|--------------------------|--|-----------|-------|-------|---------|----------------------|
| | Year Ended December 31, | | | | | Year Ended |
| | 2000 (1) | 1999 | 1998 | 1997 | 1996 | December 31, 1999 |
| | (Restated) | | | | | |
| | (in thousands, except per share amounts) | | | | | |
| Consolidated Statement | | | | | | |
| of Operations Data: | | | | | | |
| Revenues (2)..... | \$ 181,322 | \$ 62,580 | \$ -- | \$ 42 | \$1,360 | \$ 73,367 |
| Cost of revenues (2).... | 61,222 | 21,965 | -- | 6 | 42 | 25,753 |
| Gross profit..... | 120,100 | 40,615 | -- | 36 | 1,318 | 47,614 |
| Operating expenses: | | | | | | |
| Sales and marketing | | | | | | |
| (2)..... | 160,122 | 85,110 | -- | 14 | 479 | 98,386 |
| Product development | | | | | | |
| (2)..... | 15,554 | 5,380 | -- | -- | 629 | 7,381 |
| General and | | | | | | |
| administrative (2).... | 59,610 | 26,892 | 3 | 38 | 441 | 34,167 |
| Amortization of | | | | | | |
| intangible assets..... | 42,868 | 10,192 | -- | -- | -- | 28,476 |
| In-process research and | | | | | | |
| development..... | 4,048 | -- | -- | -- | -- | -- |
| Litigation settlement.. | -- | 8,406 | -- | -- | -- | 8,406 |
| Total operating | | | | | | |
| expenses..... | 282,202 | 135,980 | 3 | 52 | 1,549 | 176,816 |
| Loss from operations.... | (162,102) | (95,365) | (3) | (16) | (231) | (129,202) |
| Interest income | | | | | | |
| (expense), net..... | 23,031 | 2,386 | -- | (1) | (21) | (2,844) |
| Other expense, net..... | (6,982) | (28) | -- | -- | -- | -- |
| Net loss..... | (146,053) | (93,007) | (3) | (17) | (252) | (132,046) |
| Accretion of redemption | | | | | | |
| value and dividends on | | | | | | |
| convertible preferred | | | | | | |
| stock | -- | (2,299) | -- | -- | -- | -- |

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| | | | | | | |
|--|--------------|-------------|--------|---------|----------|--------------|
| Net loss applicable to common stockholders.... | \$ (146,053) | \$ (95,306) | \$ (3) | \$ (17) | \$ (252) | \$ (132,046) |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Net loss per share applicable to common stockholders | | | | | | |
| Basic and diluted..... | \$ (1.83) | \$ (2.32) | \$ -- | \$ -- | \$ (.07) | \$ (2.11) |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Weighted average shares--basic and diluted..... | 79,758 | 41,142 | 9,173 | 8,650 | 3,477 | 62,474 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

-
- (1) Since there were no significant acquisitions in 2000, no pro forma consolidated statement of operations data for that year has been presented.
- (2) The following chart summarizes the stock-based charges that have been included in the following captions for the periods presented:

| | Actual | | | | | Pro Forma |
|------------------------------------|-------------------------|-----------|-------|-------|-------|--------------|
| | Year Ended December 31, | | | | | Year Ended |
| | 2000 | 1999 | 1998 | 1997 | 1996 | December 31, |
| | | | | | | 1999 |
| | (Restated) | | | | | |
| | (in thousands) | | | | | |
| Revenues..... | \$ 6,233 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Cost of revenues..... | 607 | 943 | -- | -- | -- | 1,432 |
| Sales and marketing..... | 45,148 | 14,726 | -- | -- | -- | 16,383 |
| Product development..... | 572 | 447 | -- | -- | -- | 677 |
| General and administrative..... | 3,095 | 5,111 | -- | -- | -- | 5,547 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | \$ 55,655 | \$ 21,227 | \$ -- | -- | -- | \$24,039 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

| | December 31, | | | | |
|--|----------------|-----------|-------|--------|-------|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| | | | | | |
| | (Restated) | | | | |
| | (in thousands) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash and cash equivalents..... | \$167,576 | \$ 90,382 | \$ 71 | \$ 155 | \$ 36 |
| Working capital (deficiency)..... | 253,638 | 40,822 | 1 | (37) | (46) |
| Total assets..... | 893,350 | 276,563 | 71 | 155 | 77 |
| Notes payable, long term and current..... | 411 | 38,576 | -- | -- | -- |
| Redeemable convertible preferred stock..... | -- | -- | -- | -- | -- |
| Total stockholders' | | | | | |

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| | | | | | |
|-----------------------|---------|---------|------|-------|-------|
| equity (deficit)..... | 603,479 | 195,473 | (95) | (133) | (116) |
|-----------------------|---------|---------|------|-------|-------|

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the unaudited pro forma condensed combined consolidated financial data for the years ended December 31, 1998 and 1999 and the restated audited consolidated financial statements for the year ended December 31, 2000 and related notes of Homestore.com appearing elsewhere in this Form 10-K/A.

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 February 13, 2002, we concluded, based on preliminary findings of the inquiry, that our financial statements, as of, and for the year ended, December 31, 2000 would be restated and on March 11, 2002, the Audit Committee concluded its inquiry. The results of the inquiry determined that in the year 2000, certain transactions resulting in the recognition of \$36.4 million in revenue, 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 2000 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 shipment of certain software products, previously recorded as revenue in 2000, did not meet the revenue recognition requirements of SOP 97-2 and, accordingly, \$5 million of revenue should have been deferred at December 31, 2000.

The restated financial statements also include the effects of our 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 us to report certain consideration given by a vendor to a customer as a reduction in revenue. Upon adoption, we are required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement display requirements of the consensus. The effect of adoption in the year 2000 was to reduce previously reported revenue and expense by \$7.2 million, with no effect on net loss or net loss per share. The effects of adoption were not material in years prior to 2000.

The consolidated financial statements for the year ended December 31, 2000 contained herein have been restated to incorporate these adjustment. (See Note 3 to the Consolidated Financial Statements). As a result of these items, we have reduced our reported revenue by \$48.6 million and increased our net loss from \$115.2 million to \$146.1 million and our net loss per share of \$(1.44) to \$(1.83). In addition, we have taken disciplinary action by effecting the separation or resignation of seven individuals from the Company.

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

| | Year Ended December 31, 2000 | | | |
|---|------------------------------|-------------|----------------------|--------------|
| | As Reported | Adjustments | Accounting Change | Restated |
| Revenues..... | \$ 229,967 | \$ (41,395) | \$ (7,250) | \$ 181,322 |
| Cost of revenues..... | 62,239 | | (1,017) | 61,222 |
| Gross profit..... | 167,728 | (41,395) | (6,233) | 120,100 |
| Operating expenses: | | | | |
| Sales and marketing..... | 175,044 | (8,689) | (6,233) | 160,122 |
| Product development..... | 15,554 | | | 15,554 |
| General and administrative..... | 60,700 | (1,090) | | 59,610 |
| Amortization of intangible assets..... | 42,900 | (32) | | 42,868 |
| In-process research and development..... | 4,048 | | | 4,048 |
| Total operating expenses..... | 298,246 | (9,811) | (6,233) | 282,202 |
| Loss from operations..... | (130,518) | (31,584) | -- | (162,102) |
| Interest income, net..... | 23,031 | | | 23,031 |
| Other expense, net..... | (7,682) | 700 | -- | (6,982) |
| Net loss applicable to common stockholders..... | \$ (115,169) | \$ (30,884) | \$ -- | \$ (146,053) |
| Basic and diluted net loss per share applicable to common Stockholders..... | \$ (1.44) | \$ (.39) | \$ -- | \$ (1.83) |
| Shares used to calculate basic and diluted net loss per share applicable to common stockholders..... | 79,758 | 79,758 | 79,758 | 79,758 |

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

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Multiple Listing Services, or MLSs, the NAHB Remodelors 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

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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 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.

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. We (InfoTouch) changed our corporate name to Homestore.com, Inc. in August 1999.

Our historical consolidated financial statements reflect the results of operations of Homestore.com, Inc., formerly InfoTouch. For the years ended December 31, 1997 and 1998, and through the Reorganization on February 4, 1999, Homestore.com was a holding company whose sole business was managing its investment in RealSelect through LLC. This investment was accounted for under the equity method, and accordingly, Homestore.com did not record the results

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of operations related to the operating entity, RealSelect, until the Reorganization occurred on February 4, 1999. Prior to February 4, 1999, the results of operations of RealSelect were consolidated by NSI. Thus, all revenues through February 4, 1999, were recorded by NSI. Pro forma financial information that includes a comparison of the results of operations of NSI, LLC, Homestore.com and RealSelect on a combined basis for the twelve months ended December 31, 1998 and 1999 has been presented to assist investors in evaluating our historical financial performance. This pro forma financial information also includes the effect of the acquisitions in 1999 and 1998 described in the following section titled "Acquisitions." A comparison of the historical results of operations of Homestore.com has not been presented because the financial position, results of operations and cash flows were insignificant for all periods presented prior to the Reorganization.

Acquisitions. In March 1998, we acquired The Enterprise of America, Ltd., or The Enterprise, a provider of web hosting services for real estate brokers, for \$3.0 million in cash, notes and stock. In July 1998, we acquired MultiSearch Solutions, Inc., or MultiSearch, the initial developer of the HomeBuilder.com web site, for \$8.7 million in cash, notes and stock. In June 1999, we acquired SpringStreet, Inc., or SpringStreet, for common stock and convertible preferred stock equivalent to an aggregate of 5,309,058 shares of common stock. In October 1999, we acquired all of the outstanding capital stock of The Homebuyer's Fair, Inc. and FAS-Hotline, Inc., collectively Homefair, for \$35.8 million in cash and other acquisition-related expenses, a \$37.5 million promissory note and 250,000 shares of our common stock. In May 2000, we acquired WyldFyre Technologies, Inc., or WyldFyre, a leading developer of technology solutions for real estate professionals to access multiple listing service (MLS) information via the Internet, for \$34.0 million in stock. In June 2000, we acquired Top Producer Systems, Inc., or Top Producer, a provider of leads management and marketing software for real estate professionals, for \$24.2 million in cash and stock. Contingent purchase price payments of approximately \$16.2 million may also be paid in cash or stock, if certain defined targets are met during the years ended December 31, 2000 through December 31, 2004. In September 2000, we acquired The Hessel Group, a leading provider of technology-driven solutions and services to the relocation industry, for \$15.0 million in cash and assumption of The Hessel Group's options with an estimated fair value of \$4.5 million.

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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 acquisition will be accounted for as a purchase 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 related party of the Company. Under the commercial agreements,

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RETT committed to purchase \$75 million in products to be delivered to agents, brokers and other Cendant real estate franchisees over the next three years.

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.

Accounting Policies

Revenues. We derive significant revenues from the sale of subscription products, consisting of online media and technology solutions for home and real estate professionals, including web site development, to real estate agents and brokers, home builders, financial service companies and property owners and managers. Revenue from technology solutions are derived from the following: (i) software license revenue (ii) support and service revenues, and (iii) web site development revenues. We recognize revenues from software transactions in accordance with provisions of Statement of Position, or SOP, 97-2, "Software Revenue Recognition." Revenues from the sale of software products are recognized upon delivery of the products and satisfaction of related obligations, if any, provided that persuasive evidence of an arrangement exists, the fee is fixed and determinable and collection of the resulting receivable is probable. For contracts with multiple elements (e.g., delivered and undelivered products, support and other services), we allocate revenues to the undelivered elements of the contract based on vendor-specific objective evidence of its fair value. This vendor-specific objective evidence of fair value is the sales price of the element when sold separately or the renewal rate specified in the arrangement for licensing arrangements with terms of one year to 18 months that include customer support and unspecified software updates. Revenues allocated to undelivered elements are recognized when all revenue recognition criteria are met. Support and services revenues are recognized ratably over the period of the support contract. Payments for support and services are generally made in advance and are non-refundable. The products are sold in annual subscriptions and, accordingly, we defer these revenues and recognize them ratably over the life of the contract, generally 12 months. These prepayments appear on our balance sheet as deferred revenues. Contracts involving web site development are accounted for using the percentage-of-completion method which is generally determined based on development costs incurred relative to total estimated costs.

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We also sell advertising banners and traditional Internet sponsorships on our web sites. We sell banner advertising pursuant to contracts with terms varying from a few days up to three years, which may include the guarantee of a minimum number of impressions or times that an advertisement appears in pages viewed by the users. This advertising revenue is recognized ratably based upon the lesser of impressions delivered over the total number of guaranteed impressions or ratably over the period in which the advertisement is displayed. Equity exchanged for services is recognized during the period in which the services are provided. We record and measure the value of equity received in exchange for services in accordance with Emerging Issues Task

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Force, or EITF, 00-8 "Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods or Services." We recognize revenues from advertising barter transactions in accordance with EITF 99-17, "Accounting for Advertising Barter Transactions." Revenues from these transactions are recognized during the period in which the impressions are delivered. The services provided are valued based on similar cash transactions which have occurred within six months prior to the date of the barter transaction. During the year ended December 31, 2000, revenues from equity-for-services and advertising barter transactions were less than 5% of revenues. There were no revenues from these type of transactions during the year ended December 31, 1999.

Cost of revenues. Cost of revenues consists of salaries, benefits, consulting fees and equipment costs related to our web site operations, credit card processing fees and data aggregation costs. Cost of revenues also includes royalties paid to third-party real estate listings providers. These royalties are capitalized and amortized over the related contract period and are classified on our balance sheet as deferred royalties. Also included in cost of revenues are stock-based charges attributed to cost of revenues.

Real estate listings providers generally receive 10% to 12% of the gross revenues that we generate from their listings. Some real estate listings providers have entered into national arrangements with us, under which we have the exclusive right to list their properties on the Internet. The royalty rate for agreements with these real estate listings providers is slightly higher than for other providers. We also make royalty payments to the NAR under the terms of our Operating Agreement. We anticipate continuing increases in cost of revenues in absolute dollars as our revenues increase. We also expect that cost of revenues will increase as we continue to make investments to increase the capacity and speed of our family of web sites.

Sales and marketing. Sales and marketing expenses include salaries, sales commissions, benefits, travel and related expenses for our direct sales force, customer service, marketing, and sales support functions. Sales and marketing expenses also include fees associated with our Internet portal distribution agreements and marketing and listing agreements with real estate franchises. These fees are amortized on a pro rata basis over the terms of the agreements. We expect to increase the absolute dollar amount of spending in sales and marketing activities over the next year in an effort to drive consumer traffic to our family of web sites and increase brand awareness. Also included in sales and marketing are stock-based charges attributed to sales and marketing activities.

Product development. Product development costs include expenses for the development of new or improved technologies designed to enhance the performance of our family of web sites, including salaries and related expenses for our web site design staff, as well as costs for contracted services, facilities and equipment. We believe that a significant level of product development activity and expense is required in order to remain competitive with new and existing web sites. Accordingly, we anticipate that we will continue to devote substantial resources to product development and that the absolute dollar amount of these costs will increase in future periods. Also included in product development are stock-based charges attributed to product development activities.

General and administrative. General and administrative expenses include salaries, benefits and expenses for our executive, finance, legal and human resources personnel. In addition, general and administrative expenses include occupancy costs, fees for professional service, and other general corporate related costs. We expect general and administrative expenses to increase in absolute dollars as we continue to expand our administrative

infrastructure to support the anticipated growth of our business. Also included in general and administrative expenses are stock-based charges attributed to general and administrative activities.

Amortization of intangible assets. Amortization of intangible assets consists of goodwill and other purchased intangibles resulting from our acquisition activities. Goodwill and all other purchased intangibles are being amortized on a straight-line basis over the estimated periods of benefit ranging from three to fifteen years. We anticipate an increase in amortization of intangible assets in connection with the acquisition of the Move.com Group.

We have only a limited operating history under our current business model. Our prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets such as the Internet. To address these risks, we must, among other things, be able to continue to respond to highly competitive developments, attract, retain and motivate qualified personnel, implement and successfully execute our marketing plans, continue to upgrade our technologies, develop new distribution channels, and improve operational and financial systems. Although our revenues have grown significantly in recent periods, we may be unable to sustain this growth. Therefore, you should not consider our historical growth indicative of future revenue levels or operating results. We may never achieve net income, and, if we do, we may not be able to sustain it. A more complete description of other risks relating to our business is set forth under the caption "Risk Factors."

Results of Operations

The following tables set forth certain pro forma and actual consolidated statement of operations data. As there was no material impact on pro forma results from acquisitions in 2000, no pro forma consolidated statement of operations for the year ended December 31, 2000 has been presented. The pro forma consolidated statement of operations data for the periods indicated assumes that the following transactions had occurred as of January 1, 1998:

- . our acquisition of The Enterprise for 525,000 shares of common stock, with an estimated fair value of \$525,000, a \$2.2 million note payable, and \$705,000 in cash and other acquisition-related expenses;
- . our acquisition of MultiSearch for convertible preferred stock equivalent to 1,625,000 shares of our common stock, with an estimated fair value of \$4.8 million, a \$3.6 million note payable and \$875,000 in cash and other acquisition-related expenses;
- . our acquisition of SpringStreet for common stock and convertible preferred stock equivalent to an aggregate of 5,309,058 shares of our common stock, with an estimated fair value of \$51.7 million;
- . our acquisition of Homefair for 250,000 shares of our common stock, with an estimated fair value of \$11.2 million, a \$37.5 million promissory note, and \$35.8 million in cash and other acquisition-related expenses; and
- . the reorganization of our holding company structure as previously described.

The unaudited consolidated pro forma data may not, however, be indicative of the consolidated results of operations of Homestore that actually would have

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occurred had the transactions reflected in the unaudited consolidated pro forma results of operations occurred at the beginning of the periods presented, or of the consolidated results of operations that we may achieve in the future. The comparison to 1999 and 1998 results are on a pro forma basis, as historical results without pro forma presentation are not comparable or meaningful. No pro forma results for 2000 have been presented as pro forma results of acquired companies in 2000 were not material.

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| | Actual | | Pro Forma | |
|--|----------------|--------------|--------------|--------------|
| | Year Ended | | Year Ended | |
| | December 31, | December 31, | December 31, | December 31, |
| | 2000 | 1999 | 1998 | |
| | (Restated) | | | |
| | (in thousands) | | | |
| Consolidated Statement of Operations Data: | | | | |
| Revenues (1)..... | \$ 181,322 | \$ 73,367 | \$ 23,123 | |
| Cost of revenues (1)..... | 61,222 | 25,753 | 10,274 | |
| Gross profit..... | 120,100 | 47,614 | 12,849 | |
| Operating expenses: | | | | |
| Sales and marketing (1)..... | 160,122 | 98,386 | 35,066 | |
| Product development (1)..... | 15,554 | 7,381 | 5,663 | |
| General and administrative (1)..... | 59,610 | 34,167 | 31,338 | |
| Amortization of intangible assets..... | 42,868 | 28,476 | 27,897 | |
| In-process research and development..... | 4,048 | -- | -- | |
| Litigation settlement..... | -- | 8,406 | -- | |
| Total operating expenses..... | 282,202 | 176,816 | 99,964 | |
| Loss from operations..... | (162,102) | (129,202) | (87,115) | |
| Interest income (expense), net..... | 23,031 | (2,844) | (6,090) | |
| Other expense, net..... | (6,982) | -- | -- | |
| Net loss..... | \$ (146,053) | \$ (132,046) | \$ (93,205) | |

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

| | Actual | | Pro Forma | |
|---------------|----------------|--------------|--------------|--------------|
| | Year Ended | | Year Ended | |
| | December 31, | December 31, | December 31, | December 31, |
| | 2000 | 1999 | 1998 | |
| | (Restated) | | | |
| | (in thousands) | | | |
| Revenues..... | \$ 6,233 | \$ -- | \$ -- | |

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| | | | |
|---------------------------------|----------|----------|----------|
| Cost of revenues..... | 607 | 1,432 | 141 |
| Sales and marketing..... | 45,148 | 16,383 | 506 |
| Product development..... | 572 | 677 | 78 |
| General and administrative..... | 3,095 | 5,547 | 19,730 |
| | ----- | ----- | ----- |
| | \$55,655 | \$24,039 | \$20,455 |
| | ===== | ===== | ===== |

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| | Actual | Pro Forma | |
|--|------------|-----------|--------|
| | ----- | ----- | ----- |
| | 2000 | 1999 | 1998 |
| | ---- | ---- | ---- |
| | (Restated) | | |
| As a Percentage of Revenues: | | | |
| Revenues..... | 100% | 100% | 100% |
| Cost of revenues..... | 34 | 35 | 44 |
| | --- | ---- | ---- |
| Gross profit..... | 66 | 65 | 56 |
| | --- | ---- | ---- |
| Operating expenses: | | | |
| Sales and marketing..... | 88 | 134 | 152 |
| Product development..... | 8 | 10 | 24 |
| General and administrative..... | 33 | 47 | 135 |
| Amortization of intangible assets..... | 24 | 39 | 121 |
| In process research and development..... | 2 | -- | -- |
| Litigation settlement..... | -- | 11 | -- |
| | --- | ---- | ---- |
| Total operating expenses..... | 155 | 241 | 432 |
| | --- | ---- | ---- |
| Loss from operations..... | (89) | (176) | (376) |
| Interest income (expense), net..... | 13 | (4) | (27) |
| Other expense, net..... | (4) | -- | -- |
| | --- | ---- | ---- |
| Net loss..... | (80)% | (180)% | (403)% |
| | === | ==== | ==== |

For the Years Ended December 31, 2000 and 1999

Revenues

Revenues increased to \$181.3 million in 2000 from pro forma revenues of \$73.4 million in 1999. The increase was primarily due to increased revenue from professional subscriptions.

Subscription revenues, which represented approximately 62% of total revenues for 2000, grew 167% from 1999. The growth in revenue from professional subscriptions was due to increases in the number of professionals on the Homestore.com family of web sites as well as an increase in the average revenue per subscription. Also contributing to the increase was sales of technology products as well as web development fees. The number of professional subscriptions increased by 52% to approximately 145,000 compared to totals at December 31, 1999 and was driven, in part, by bulk purchases from national franchises. We anticipate that we will have an increase in the number of professional subscribers and corresponding increases to revenues in

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connection with the acquisition of the Move.com Group, resulting in subscriptions representing a larger percentage of total anticipated revenues in 2001.

Advertising revenues, which represented approximately 38% of total revenues for 2000, grew 233% from 1999. The increase was driven primarily by increases in advertising and sponsorship arrangements. Although our advertising revenue has grown significantly in recent periods, we may be unable to sustain growth as there has been a softening in the online advertising market in general. If this softening continues or worsens, our advertising revenues could be adversely affected.

Cost of Revenues

Cost of revenues, including non-cash stock-based charges, increased to \$61.2 million in 2000 from pro forma cost of revenues of \$25.7 million in 1999. The increase was due primarily to our overall increased sales volume, increased salaries, increase in royalties, and hosting costs during 2000 as compared to 1999. We anticipate continuing 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 web sites in order to accommodate traffic increases.

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Gross margin percentage for 2000 was 66.2%, up from pro forma gross margin percentage of 64.9% for 1999. The increase in gross margin percentage was primarily due to renewal of subscriptions as well as the continuing effort to leverage our existing web site operations.

Operating Expenses

Sales and marketing. Sales and marketing expenses increased to \$160.1 million in 2000 from pro forma sales and marketing of \$98.4 million in 1999. The increase was primarily attributable to a significant increase in costs associated with Internet portal distribution agreements and marketing and listing agreements, which we entered into during the third and fourth quarter of 1999. The increase was also due to increased salaries and commissions. Increases in advertising for our branding campaign, promotional material, and trade show expenses during 2000 also contributed to the increase. The increase was also due to the inclusion of stock-based charges in sales and marketing. These stock-based charges increased by \$30.4 million to \$45.1 million in 2000 from \$14.7 million in 1999.

Product development. Product development expenses increased to \$15.6 million in 2000 from pro forma product development of \$7.4 million in 1999. 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, as well as product development costs from our acquisitions of WyldFyre, Top Producer and The Hessel Group in 2000.

General and administrative. General and administrative expenses increased to \$59.6 million in 2000 from pro forma general and administrative expenses of \$34.2 million in 1999. 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. The increase was partially offset by a decrease in stock-based charges in general and administrative expenses. These stock-based charges decreased by \$2.0 million to \$3.1 million

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in 2000 from \$5.1 million in 1999.

Amortization of intangible assets. Amortization of intangible assets was \$42.9 million in 2000 compared to pro forma amortization of \$28.5 million in 1999. The increase in amortization was due to the acquisitions of WyldFyre, Top Producer and The Hessel Group in 2000.

In-process research and development. During 2000, our acquisitions of WyldFyre and Top Producer resulted in write-offs of in-process research and development, or IPR&D, of \$4.0 million. The fair value of the IPR&D for each of the acquisitions was determined using the income approach. The income approach included assumptions relating to revenue estimates, operating expenses, income taxes and discount rates. The IPR&D was comprised of seven projects and was charged to expense during the year ended December 31, 2000.

Litigation Settlement. On October 22, 1999, we announced a settlement of litigation with Cendant. As part of the settlement, Cendant received 250,000 shares of our common stock. We incurred a non-cash charge of \$8.4 million in connection with the issuance of the 250,000 shares of our common stock in the year ended December 31, 1999.

Interest Income, Net

Interest income, net increased to \$23.0 million in 2000 from interest income, net of \$2.4 million in 1999. The increase was primarily due to interest income earned on a higher average cash balances as a result of proceeds received from our follow-on public offering which was completed in January 2000.

Other Expense, Net

Other expense, net increased to \$7.0 million in 2000 from other expense, net of \$28,000 in 1999. The increase was primarily due to the accretion of the distribution obligation relating to a marketing and distribution agreement.

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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 in 2000 and 1999. 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.

Stock-Based Charges

Stock. In March 2000, we issued 1,085,271 shares of our common stock valued for accounting purposes at approximately \$70.0 million to Budget Group, 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 April 2000, we entered into a five-year marketing and distribution agreement with 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

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\$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. In connection with this agreement, we recorded \$186 million in prepaid distribution expense included in current and non-current assets that will be recognized as stock-based charges over the five-year marketing agreement.

Warrants. In February 2000, we issued warrants to purchase up to 470,089 shares of our common stock at an exercise price of \$66.50 to the Broker Gold program members who elected to renew their existing listing agreements with us for an additional two years at the end of their existing two-year term. All warrants issued were fully vested, non-forfeitable and were immediately exercisable. We incurred a charge of approximately \$21.9 million which is being recognized as expense over the remaining term of the initial two year Broker Gold program agreements.

In March 2000, in connection with a marketing agreement we issued warrants to purchase 400,000 shares of our common stock at an exercise price of \$35.63 per share. All warrants issued were fully vested, non-forfeitable and were immediately exercisable. We incurred a non-cash charge of \$5.0 million which is being recognized over the one-year term.

Throughout 2000, we issued warrants to purchase 30,739 shares of our common stock at a weighted average price of \$85.45 per share to Multiple Listing Services, or MLSs, that agreed to provide their real estate listings to us for publication on the Internet on a national basis. All warrants issued were fully vested, non-forfeitable and were immediately exercisable. We incurred a total non-cash charge of approximately \$1.8 million which is being recognized as expense over the term of the applicable MLS agreement, approximately two to three years.

Pro Forma for the Years Ended December 31, 1999 and 1998

Revenues

Pro forma revenues increased to \$73.4 million in 1999 from \$23.1 million in 1998. The increase was primarily due to increased revenue from professional subscriptions as well as an increase in advertising revenue. The growth in revenue from professional subscriptions was due to an increase in the number of subscribers on our web sites. The growth in advertising revenue was primarily driven by increased sponsorships, including various alliance agreements. Banner advertising revenues also increased primarily as a result of increased traffic to our web sites in 1999 as compared to 1998.

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Cost of Revenues

Pro forma cost of revenues increased to \$25.8 million in 1999 from \$10.3 million in 1998. The increase was due primarily to our overall increased sales volume and increased activity during 1999 as compared to 1998.

Our pro forma gross margin percentage in 1999 was 65%, up from 56% for 1998, primarily due to increased advertising revenue. The increase was partially offset by the inclusion of stock-based charges in cost of revenues. These stock-based charges increased by \$1.3 million to \$1.4 million in 1999 from \$141,000 in 1998.

Operating Expenses

Sales and marketing. Pro forma sales and marketing expenses increased to

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\$98.4 million in 1999 from \$35.1 million in 1998. The increase was primarily attributable to a significant increase in costs associated with Internet portal distribution agreements and marketing and listing agreements, which we entered into throughout 1998 and 1999. The increase was also due to the significant growth of our direct sales force in the third and fourth quarters of 1998, resulting in increased salaries and commissions and related travel and entertainment expenses. Increased sales volume also contributed to an increase in sales related collateral materials. Increases in advertising, promotional material and trade show expenses also contributed to the increase. The increase was also due to the inclusion of stock-based charges in sales and marketing. These stock-based charges increased by \$15.9 million to \$16.3 million in 1999 from \$506,000 in 1998.

Product development. Pro forma product development expenses increased to \$7.4 million in 1999 from \$5.7 million in 1998. The increase was primarily due to costs associated with the launch of Remodel.com and the re-launch of the Homestore.com web site, including salaries and related expenses for staff, as well as contracted services. The increase was also due to the inclusion of stock-based charges in product development. These stock-based charges increased by \$599,000 to \$677,000 in 1999 from \$78,000 in 1998.

General and administrative. Pro forma general and administrative expenses increased to \$34.2 million in 1999 from \$31.3 million in 1998. 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 a public company. Facility costs associated with our new corporate office also increased. This increase was offset by the inclusion of stock-based charges in general and administrative expenses. These stock-based charges decreased by \$14.2 million to \$5.5 million in 1999 from \$19.7 million in 1998.

Amortization of intangible assets. Pro forma amortization of intangible assets was \$28.5 million in 1999 compared to \$27.9 million in 1998.

Stock-Based Charges

Stock Options. In connection with the grant of stock options to employees during 1997, 1998 and 1999, we recorded aggregate deferred compensation of approximately \$23.9 million. This deferred compensation represented the difference between the deemed fair value of our common stock for accounting purposes and the exercise price of these options at the date of grant. Deferred compensation is presented as a reduction of stockholders' equity and amortized over the vesting period of the applicable options, generally four years.

Stock. In August 1998, we sold convertible preferred stock equivalent to 8,320,245 shares of common stock at a purchase price of \$4.80 per share and 8,369,955 shares of common stock at a purchase price of \$1.26 per share. We incurred a non-cash charge of \$18.9 million for the year ended December 31, 1998, which represents the difference between the deemed fair value of the stock and the price paid by the investors as stock-based compensation in 1998. This stock-based charge is included in the stock-based charges line item.

During 1999, we recorded as pro forma deferred compensation the \$6.0 million difference between the deemed fair value of the stock sold in connection with our Broker Gold program and the price paid. We are amortizing this amount ratably over the two-year term of the Broker Gold agreements, resulting in a non-cash charge of \$2.8 million in 1999.

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Warrants. In April 1998, in connection with a web portal distribution agreement, we issued warrants to purchase 792,752 shares of our common stock at a weighted average exercise price of \$7.00 per share. We incurred a total charge of \$12.6 million which is being amortized over the remaining term of the distribution agreement, approximately two years.

In February 1999, we closed a private equity offering to real estate brokers under our Broker Gold program. We also issued warrants to purchase up to 364,110 shares of our common stock with an exercise price of \$20.00 per share. All warrants issued are fully vested, non-forfeitable and are immediately exercisable. We incurred a charge of approximately \$4.1 million which is being recognized as expense over the remaining term of the initial two-year Broker Gold program agreements.

Throughout 1999, we issued warrants to purchase 910,844 shares of common stock at a weighted average exercise price of \$21.18 per share to MLSs that agreed to provide their real estate listings to us for publication on the Internet on a national basis. All warrants issued are fully vested, non-forfeitable and were immediately exercisable. We incurred a total charge of approximately \$11.2 million which is being recognized over the term of the applicable MLS agreement, approximately one to two years.

In August 1999, in connection with a marketing agreement,, we issued warrants to purchase 500,000 shares of our common stock at an exercise price of \$20.00 per share. All warrants are fully vested, non-forfeitable and were immediately exercisable. We incurred a total charge of approximately \$3.5 million which is being recognized over the two-year term of the agreement.

In October 1999, in connection with a marketing agreement, we issued warrants to purchase 119,048 shares of our common stock at an exercise price of \$42.00 per share. All warrants are fully vested, non-forfeitable and were immediately exercisable. We incurred a total charge of approximately \$1.1 million which is being recognized over the two-year term of the agreement.

Litigation Settlement. On October 22, 1999, we announced a settlement of litigation with Cendant. As part of the settlement, Cendant received 250,000 shares of our common stock. We incurred a non-cash charge of \$8.4 million in connection with the issuance of the 250,000 shares of our common stock in the year ended December 31, 1999.

Interest and Other Expense, Net

Pro forma interest income consists of earnings on our cash and cash equivalents, net of (1) imputed interest expense on the notes payable issued in connection with our acquisitions of The Enterprise and MultiSearch and (2) interest expense incurred on the note payable issued in connection with our Homefair acquisition. Interest and other expense decreased to \$2.8 million in 1999 from \$6.1 million in 1998. The decrease was primarily due to interest income earned on a higher average cash balances as a result of our initial public offering proceeds.

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 in 1999 and 1998.

Liquidity and Capital Resources

The cash flow information presented below includes the combined cash flow statements derived from the combined financial statements for the years ended December 31, 1999 and 1998 of Homestore.com and NetSelect.

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Since 1993, we have funded our operations and met our capital expenditure requirements through the sale of equity securities, cash generated from the sale of our products and services and, to a lesser extent, equipment

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lease financing. At December 31, 2000, we had cash equivalents of approximately \$167.6 million, short-term investments of approximately \$75.3 million and restricted cash of \$103.4 million totaling approximately \$346.3 million as compared to \$90.4 million at December 31, 1999.

Cash used in operating activities of \$51.3 million for the year ended December 31, 2000 was primarily attributable to the net loss of \$146.1 million, increases in accounts receivable of \$19.1 million, prepaid distribution expense of \$18.2 million and other assets of \$14.3 million. This decrease in cash used in operating activities was primarily offset by depreciation, amortization and accretion of \$52.5 million, stock-based charges of \$55.7 million, in-process research and development of \$4.0 million and increases in accounts payable and accrued liabilities of \$18.9 million and deferred revenue of \$11.9 million. Net cash used in operating activities was \$51.0 million in 1999 and \$28.2 million in 1998. Net cash used in operating activities in each of these periods was primarily the result of net operating losses and payments required to be made relating to our Internet portal distribution and marketing and listing agreements entered into in 1998. These operating cash outflows were partially offset by depreciation, amortization and non-cash equity charges and increases in accounts payable, accrued liabilities and deferred revenues.

Cash used in investing activities of \$189.2 million for the year ended December 31, 2000 was attributable to capital expenditures of \$41.1 million, net purchases of short-term investments consisting primarily of commercial paper of \$73.5 million and other investments of \$32.5 million. Cash of \$42.0 million was also used for acquisitions. Net cash used in investing activities was \$29.0 million in 1999, compared to \$5.3 million in 1998. To date, our investing activities have consisted of acquisitions, purchases of property and equipment and strategic operating agreements. In June 1999, we acquired SpringStreet for common stock and convertible preferred stock and assumed \$10.2 million in cash. In October 1999, we used \$35.0 million in cash to fund part of the purchase price for Homefair. In March 1998 and July 1998, we acquired The Enterprise and MultiSearch, respectively for an aggregate purchase price of \$11.7 million, of which \$1.6 million represented cash payments. Capital expenditures for property and equipment totaled \$3.9 million and \$4.0 million in 1998 and 1999, respectively. During 1999, an additional \$3.0 million of capital expenditures were funded through an equipment lease financing arrangement.

Cash provided by financing activities of \$317.7 million for the year ended December 31, 2000 was attributable to our follow-on public offering of common stock of \$428.9 million, repayment of notes from stockholders of \$2.5 million, the effect of subsidiary equity transactions of \$10.9 million, and proceeds from the exercise of options and warrants and the employee stock purchases of \$23.3 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. This increase was offset by the transfer of \$103.4 million to restricted cash in conjunction with a distribution agreement and security for office space leases, repayment of notes payable of \$38.6 million, and issuance of notes receivable of \$6.0 million. Net cash provided by financing activities was \$155.6 million in 1999 and \$45.1 million in 1998. Cash was provided primarily from net proceeds from

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the sale of our common and preferred stock. In April 1999, we issued convertible preferred stock equivalent to 1,704,775 shares of common stock for \$17.0 million. In August 1999, we completed our initial public offering in which we sold 8,050,000 shares of our common stock at a price of \$20.00 per share, raising approximately \$145.6 million, after deducting underwriting discounts and commissions and offering expenses. We also repurchased shares of our common and preferred stock in 1998 and 1999 and repaid notes payable.

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

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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 December 31, 2000, we recorded \$189.8 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 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 December 31, 2000, we have pledged \$94.7 million in cash equivalents towards this letter of credit which is classified as restricted cash on the balance sheet. This letter of credit can be drawn against by AOL 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.

In February 2001, we completed the acquisition of the Move.com Group from Cendant in an all stock transaction valued at approximately \$757.3 million. In connection with the acquisition, we issued an aggregate of approximately 21.4 million shares of our common stock in exchange for all the outstanding shares of capital stock of Move.com, Inc. and Welcome Wagon International, Inc. and assumed approximately 3.2 million outstanding stock options of Move.com, Inc.

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

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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 million in products to be delivered to agents, brokers and other Cendant real estate franchisees over the next three years.

Since inception, we have incurred losses from operations and negative operating cash flows. At December 31, 2000, we had an accumulated deficit of \$301.8 million, cash and cash equivalents of approximately \$167.6 million, short-term investments of approximately \$75.3 million and restricted cash of \$103.4 million. We have no material commitments for capital expenditures over the next twelve months. We have total minimum lease obligations of approximately \$44.0 million under certain noncancelable operating leases through 2005 and approximately \$11.5 million in internet portal distribution obligations through December 2003. 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 December 31, 2001. 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 BGI or AOL as described above, 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

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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 21 of our consolidated financial statements.

Recent Accounting Developments

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, or 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 planned use of the derivative and the resulting designation. Because we do not currently hold any derivative instruments and do not engage in hedging activities, the impact of the adoption of SFAS No. 133 is not currently expected to have a material impact on our financial position, results of operations or cash flows. We will be required to implement SFAS No. 133 in the first quarter of fiscal 2001.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, or SAB No. 101, Revenue Recognition in Financial Statements. SAB No. 101 provides guidance for revenue recognition under certain circumstances. The adoption of SAB No. 101 in the fourth quarter of 2000 did not have a significant impact on our financial position, results of

operations or cash flows.

In March 2000, the FASB issued FASB Interpretation No. 44, or FIN No. 44, Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB Opinion No. 25. FIN No. 44 clarifies the application of Opinion No. 25 for (a) the definition of employee for purposes of applying Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN No. 44 became effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998, or January 12, 2000. The adoption of FIN No. 44 did not have a significant impact on our financial position, results of operations or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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HOMESTORE.COM, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED
STATEMENT OF OPERATIONS

Overview

On February 4, 1999, NetSelect, Inc. ("NSI") was merged with and into Homestore.com, Inc. ("Company" or "Homestore") in a non-substantive share exchange, which was provided for in the agreements governing the formation and operation of RealSelect, Inc. ("RealSelect"), the operating company. The share exchange lacked substance since both the Company and NSI were shell companies for their respective investments in RealSelect, and because the respective underlying ownership interests of the individual investors were unaffected. Accordingly, the non-substantive share exchange was accounted for at historical cost. The share exchange between the Company and NSI is referred to herein as the "Reorganization". This Reorganization was completed solely to

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simplify the Company's legal structure prior to its initial public offering. See Note 1 of Homestore.com, Inc. Notes to Consolidated Financial Statements for further discussion about the Reorganization.

In June 1999, the Company acquired SpringStreet, Inc. ("SpringStreet") for common stock and convertible preferred stock equivalent to an aggregate of 5,309,058 shares of common stock. The aggregate acquisition cost of \$51.7 million was based on terms and preferences of the shares issued in the transaction relative to the value received by the Company in the April 1999 Series G preferred stock financing. The acquisition has been accounted for as a purchase. The acquisition cost has been allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values. The excess of purchase consideration over net tangible assets acquired of \$41.3 million has been allocated to goodwill and other purchased intangible assets which are being amortized on a straight-line basis over estimated lives ranging from three to five years.

In October 1999, the Company acquired Homebuyer's Fair, Inc. and FAS-Hotline, Inc. (collectively referred to as "Homefair" or "Homefair Group") for \$35.8 million in cash and other acquisition related expenses, a \$37.5 million note payable and 250,000 shares of common stock, with an estimated fair value of \$11.2 million, for a total aggregate purchase price of \$83.7 million. The acquisition has been accounted for as a purchase. The acquisition cost has been allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values. The excess of purchase consideration over net tangible assets acquired of \$83.3 million has been allocated to goodwill and other purchased intangible assets which are being amortized on a straight-line basis over estimated lives ranging from three to five years.

Homestore's unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 1999 gives effect to the Reorganization and the acquisitions of Springstreet and Homefair as if they had occurred on January 1, 1999.

The unaudited pro forma condensed consolidated statement of operations is not necessarily indicative of the operating results that would have been achieved had the transactions been in effect as of January 1, 1999 and should not be construed as being representative of future operating results.

The audited historical financial statements of the Company, NSI, The Enterprise, MultiSearch, SpringStreet, The Homebuyer's Fair, Inc., FAS-Hotline, Inc. and The Center For Mobility Resources, Inc. and National School Services, Inc. are incorporated by reference under the caption "Index to Financial Statements" on Form S-1 (No. 333-94467) as filed with the Securities and Exchange Commission on January 26, 2000 and to the Form 8K/A filed on December 7, 1999. The unaudited pro forma condensed consolidated statement of operations presented herein should be read in conjunction with those financial statements and related notes.

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HOMESTORE.COM, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1999
(in thousands, except per share amounts)

Pro Forma

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| | Homestore | NSI | Adjustments | Homestore | SpringStreet | Homefair | Adj |
|---|-------------|------------|-------------|-------------|--------------|----------|-------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Revenues..... | \$ 62,580 | \$ 2,433 | \$ -- | \$ 65,013 | \$ 2,346 | \$6,159 | \$ |
| Cost of revenues (including \$1,432 in non- cash equity charges)..... | 21,965 | 853 | -- | 22,818 | 2,109 | 826 | |
| Gross Profit..... | 40,615 | 1,580 | -- | 42,195 | 237 | 5,333 | |
| Operating expenses: | | | | | | | |
| Sales and marketing (including \$16,383 in non-cash equity charges)... | 85,110 | 4,252 | -- | 89,362 | 6,975 | 2,200 | |
| Product development (including \$677 in non- cash equity charges)..... | 5,380 | 200 | -- | 5,580 | 1,338 | 463 | |
| General and administrative (including \$5,547 in non-cash equity charges)... | 26,892 | 1,353 | -- | 28,245 | 4,552 | 1,370 | |
| Amortization of intangible assets..... | 10,192 | 261 | -- | 10,453 | -- | 1,810 | |
| Litigation settlement.... | 8,406 | -- | -- | 8,406 | -- | -- | |
| Total operating expenses.. | 135,980 | 6,066 | -- | 142,046 | 12,865 | 5,843 | |
| Loss from operations..... | (95,365) | (4,486) | -- | (99,851) | (12,628) | (510) | (|
| Other income (expense), net..... | 2,358 | (5) | -- | 2,353 | 44 | (89) | |
| Net loss..... | (93,007) | (4,491) | -- | (97,498) | (12,584) | (599) | (|
| Accretion of redemption value and dividends on convertible preferred stock..... | (2,299) | (207) | 2,506 (5) | -- | -- | -- | |
| Net loss applicable to common stockholders..... | \$ (95,306) | \$ (4,698) | \$2,506 | \$ (97,498) | \$ (12,584) | \$ (599) | \$ (|
| Historical basic and diluted net loss per share applicable to common stockholders..... | \$ (2.32) | | | | | | |
| Shares used to calculate historical basic and diluted net loss per share applicable to common stockholders..... | 41,142 | | | | | | |
| Pro forma basic and diluted net loss per share applicable to common stockholders..... | | | | | | | |
| Shares used to calculate pro forma basic and diluted net loss per share applicable to common stockholders..... | | | | | | | |

See accompanying Notes to Unaudited Pro Forma Condensed Consolidated Financial Information.

HOMESTORE.COM, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF OPERATIONS

Pro forma adjustments reflect the following in the unaudited pro forma condensed consolidated statement of operations:

- (1) Elimination of intercompany revenues and expenses
- (2) Elimination of amortization of intangible assets
- (3) Amortization of goodwill and other purchased intangible assets on a straight-line basis
- (4) Reduction in interest income related to cash paid as part of the purchase price and an increase in interest expense related to the \$37.5 million promissory note which bears interest at 10.875% issued in connection with the acquisition
- (5) Elimination of the accretion of redemption value and dividends on convertible preferred stock resulting from the assumed conversion of the Company's preferred stock into common stock in connection with the IPO.
- (6) Additional weighted average shares used in the calculation of pro forma basic and diluted net loss per share applicable to common stockholders reflect the following, as if they had been issued as of January 1, 1999, except for preferred stock that was not issued in connection with an acquisition. For this preferred stock, the weighted average shares reflect the preferred stock as if it had been issued as of January 1, 1999 or the date of issuance, if later:

| | Year ended December 31, 1999 ----- |
|---|---|
| SpringStreet acquisition..... | 2,725 |
| Homefair acquisition..... | 208 |
| NSI Reorganization..... | 1,163 |
| Conversion of preferred stock in connection with IPO..... | 14,918 |
| Conversion of NAR's RealSelect shares into HomeStore.com shares..... | 2,318 |

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders

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Homestore.com, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Homestore.com and its subsidiaries (the "Company") at December 31, 2000 and December 31, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the accompanying consolidated financial statements, the Company has restated its financial statements for the year ended December 31, 2000.

/s/ PricewaterhouseCoopers LLP

Century City, California

March 16, 2001, except as to

Notes 3 and 21, which are as of March 11, 2002

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HOMESTORE.COM, INC.

CONSOLIDATED BALANCE SHEETS (in thousands, except per share amounts)

| | December 31, | |
|---|--------------|-----------|
| | 2000 | 1999 |
| | (Restated) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 167,576 | \$ 90,382 |
| Short-term investments..... | 75,295 | -- |
| Marketable equity security..... | 247 | 4,230 |
| Accounts receivable, net of allowance for doubtful accounts of \$4,477 and \$1,627 at December 31, 2000 and 1999, respectively..... | 32,028 | 13,428 |
| Current portion of notes receivable..... | 5,123 | -- |
| Current portion of prepaid distribution expense..... | 49,140 | 7,868 |
| Other current assets..... | 16,710 | 5,371 |
| | 346,119 | 121,279 |
| Total current assets..... | | |
| Prepaid distribution expense, net of current portion.... | 159,226 | 6,167 |
| Property and equipment, net..... | 43,483 | 6,305 |
| Intangible assets, net..... | 194,274 | 138,612 |

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| | | |
|---|------------|-----------|
| Restricted cash..... | 103,409 | -- |
| Other assets..... | 46,839 | 4,200 |
| | ----- | ----- |
| Total assets..... | \$ 893,350 | \$276,563 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable..... | \$ 13,162 | \$ 5,349 |
| Accrued liabilities..... | 45,062 | 23,687 |
| Deferred revenue..... | 33,846 | 13,478 |
| Current portion of notes payable..... | 411 | 37,943 |
| | ----- | ----- |
| Total current liabilities..... | 92,481 | 80,457 |
| Distribution obligation..... | 189,848 | -- |
| Deferred revenue..... | 2,896 | -- |
| Notes payable, net of current portion..... | -- | 633 |
| Other non-current liabilities..... | 4,646 | -- |
| | ----- | ----- |
| | 289,871 | 81,090 |
| | ----- | ----- |
| Commitments and contingencies (Note 20) | | |
| Stockholders' equity: | | |
| Convertible preferred stock..... | -- | -- |
| Common stock, \$.001 par value; 500,000 shares authorized, 88,294 and 75,251 shares issued at December 31, 2000 and December 31, 1999, respectively, and 82,761 and 70,189 shares outstanding at December 31, 2000 and December 31, 1999, respectively..... | 83 | 70 |
| Additional paid-in capital..... | 1,027,423 | 413,244 |
| Treasury stock, at cost; 5,533 and 5,062 shares at December 31, 2000 and December 31, 1999, respectively..... | (16,556) | (13,676) |
| Notes receivable from stockholders..... | (7,938) | (13,350) |
| Deferred stock-based charges..... | (97,724) | (38,947) |
| Accumulated other comprehensive income..... | (23) | 3,865 |
| Accumulated deficit..... | (301,786) | (155,733) |
| | ----- | ----- |
| Total stockholders' equity..... | 603,479 | 195,473 |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$ 893,350 | \$276,563 |
| | ===== | ===== |

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

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HOMESTORE.COM, INC.

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

| Year Ended December 31, | | |
|-------------------------|-------|-------|
| ----- | ----- | ----- |
| 2000 | 1999 | 1998 |
| ----- | ----- | ----- |
| (Restated) | | |

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| | | | |
|--|--------------|-------------|--------|
| Revenues (including non-cash equity charges, see note 2)..... | \$ 181,322 | \$ 62,580 | \$ -- |
| Cost of revenues (including non-cash equity charges, see note 2)..... | 61,222 | 21,965 | -- |
| | ----- | ----- | ----- |
| Gross profit..... | 120,100 | 40,615 | -- |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Sales and marketing (including non-cash equity charges, see note 2)..... | 160,122 | 85,110 | -- |
| Product development (including non-cash equity charges, see note 2)..... | 15,554 | 5,380 | -- |
| General and administrative (including non-cash equity charges, see note 2)..... | 59,610 | 26,892 | 3 |
| Amortization of intangible assets..... | 42,868 | 10,192 | -- |
| In-process research and development..... | 4,048 | -- | -- |
| Litigation settlement..... | -- | 8,406 | -- |
| | ----- | ----- | ----- |
| Total operating expenses..... | 282,202 | 135,980 | 3 |
| | ----- | ----- | ----- |
| Loss from operations..... | (162,102) | (95,365) | (3) |
| Interest income, net..... | 23,031 | 2,386 | -- |
| Other expense, net..... | (6,982) | (28) | -- |
| | ----- | ----- | ----- |
| Net loss..... | (146,053) | (93,007) | (3) |
| Accretion of redemption value and dividends on convertible preferred stock..... | -- | (2,299) | -- |
| | ----- | ----- | ----- |
| Net loss applicable to common stockholders..... | \$ (146,053) | \$ (95,306) | \$ (3) |
| | ===== | ===== | ===== |
| Basic and diluted net loss per share applicable to common stockholders..... | \$ (1.83) | \$ (2.32) | \$ -- |
| | ===== | ===== | ===== |
| Shares used to calculate basic and diluted net loss per share applicable to common stockholders..... | 79,758 | 41,142 | 9,173 |
| | ===== | ===== | ===== |

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

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HOMESTORE.COM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Treasury Stock | Notes Receivable From Stockholders | Deferred Stock-Based Compensation Charges | |
|-----------------------------------|-----------------------------|--------|--------------|--------|----------------------------|----------------|------------------------------------|---|-------|
| | Shares | Amount | Shares | Amount | | | | | |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 1997..... | -- | \$-- | 8,650 | \$ 9 | \$ 2,721 | \$ -- | \$ -- | \$ -- | \$ -- |

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| | | | | | | | | |
|---|---------|-------|---------|-------|--------|----------|----------|----------|
| Exercise of stock options..... | -- | -- | 1,330 | 1 | 591 | -- | (551) | -- |
| Net loss..... | -- | -- | -- | -- | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 1998..... | -- | -- | 9,980 | 10 | 3,312 | -- | (551) | -- |
| Reorganization (Note 1)..... | 4,528 | 5 | 12,480 | 12 | 98,119 | (1,770) | (3,230) | (10,079) |
| Comprehensive income (loss): | | | | | | | | |
| Net loss..... | -- | -- | -- | -- | -- | -- | -- | -- |
| Unrealized gain on marketable security..... | -- | -- | -- | -- | -- | -- | -- | -- |
| Comprehensive income (loss)... | -- | -- | -- | -- | -- | -- | -- | -- |
| Issuance of common stock and Series F preferred stock.. | 96 | -- | 643 | -- | 3,553 | -- | -- | -- |
| Issuance of common stock to minority interest..... | -- | -- | -- | -- | -- | -- | -- | -- |
| Exercise of stock options..... | -- | -- | 5,959 | 5 | 12,906 | -- | (11,465) | -- |
| Other notes receivable from shareholders..... | -- | -- | -- | -- | -- | -- | (1,521) | -- |
| Repurchase of common stock..... | -- | -- | (2,903) | -- | -- | (11,906) | 3,630 | -- |
| Issuance of common stock..... | -- | -- | 660 | -- | 15,767 | -- | (238) | -- |
| Repayment from shareholder..... | -- | -- | -- | -- | -- | -- | 25 | -- |
| Issuance of Series G preferred stock.. | 341 | -- | -- | -- | 17,007 | -- | -- | -- |
| Issuance of Series H preferred stock.. | 845 | 1 | 365 | -- | 51,433 | -- | -- | -- |
| Deferred stock-based charges.... | -- | -- | -- | -- | 44,095 | -- | -- | (50,095) |
| Stock-based charges..... | -- | -- | -- | -- | 6,000 | -- | -- | 21,227 |
| Accretion of Series E redemption value..... | -- | -- | -- | -- | (159) | -- | -- | -- |
| Conversion of convertible preferred stock.. | (5,810) | (6) | 29,050 | 29 | (23) | -- | -- | -- |
| Conversion of redeemable convertible preferred stock.. | -- | -- | 1,625 | 2 | 5,122 | -- | -- | -- |
| Conversion of NAR shares..... | -- | -- | 3,917 | 4 | (4) | -- | -- | -- |
| Issuance of | | | | | | | | |

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| | | | | | | | | |
|--|-------|-------|--------|-------|-------------|------------|-----------|------------|
| common stock in initial public offering..... | -- | -- | 8,050 | 8 | 145,585 | -- | -- | -- |
| Exercise of warrants..... | -- | -- | 113 | -- | 2,125 | -- | -- | -- |
| Litigation settlement..... | -- | -- | 250 | -- | 8,406 | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 1999..... | -- | -- | 70,189 | 70 | 413,244 | (13,676) | (13,350) | (38,947) |
| Comprehensive income (loss): | | | | | | | | |
| Net loss (Restated)..... | -- | -- | -- | -- | -- | -- | -- | -- |
| Unrealized loss on marketable security..... | -- | -- | -- | -- | -- | -- | -- | -- |
| Foreign currency translation..... | -- | -- | -- | -- | -- | -- | -- | -- |
| Comprehensive loss (Restated)..... | -- | -- | -- | -- | -- | -- | -- | -- |
| Issuance of common stock under employee stock purchase plan and exercise of stock options..... | -- | -- | 1,942 | 2 | 11,512 | -- | -- | -- |
| Issuance of common stock for acquisitions..... | -- | -- | 613 | 1 | 51,275 | -- | -- | -- |
| Other issuances of common stock.. | -- | -- | 4,992 | 5 | 70,837 | -- | -- | (70,798) |
| Repayment from stockholders..... | -- | -- | -- | -- | -- | -- | 2,532 | -- |
| Repurchase of common stock..... | -- | -- | (471) | -- | -- | (2,880) | 2,880 | -- |
| Deferred stock- based charges.... | -- | -- | -- | -- | 31,520 | -- | -- | (31,520) |
| Stock-based charges..... | -- | -- | -- | -- | -- | -- | -- | 43,541 |
| Issuance of common stock in public offering.. | -- | -- | 4,073 | 4 | 428,899 | -- | -- | -- |
| Effect of subsidiary equity transactions..... | -- | -- | -- | -- | 8,337 | -- | -- | -- |
| Exercise of warrants..... | -- | -- | 1,423 | 1 | 11,799 | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2000 (Restated)..... | -- | \$-- | 82,761 | \$83 | \$1,027,423 | \$(16,556) | \$(7,938) | \$(97,724) |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

Total
Stockholder's
Equity

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| | (Deficit) |
|--|-----------|
| | ----- |
| Balance at December 31, 1997..... | \$ (133) |
| Exercise of stock options..... | 41 |
| Net loss..... | (3) |
| | ----- |
| Balance at December 31, 1998..... | (95) |
| Reorganization (Note 1)..... | 22,197 |
| Comprehensive income (loss): | |
| Net loss..... | (93,007) |
| Unrealized gain on marketable security..... | 3,865 |
| | ----- |
| Comprehensive income (loss)... | (89,142) |
| | ----- |
| Issuance of common stock and Series F preferred stock.. | 3,553 |
| Issuance of common stock to minority interest..... | 1,000 |
| Exercise of stock options..... | 1,446 |
| Other notes receivable from shareholders.... | (1,521) |
| Repurchase of common stock.... | (8,276) |
| Issuance of common stock.... | 15,529 |
| Repayment from shareholder..... | 25 |
| Issuance of Series G preferred stock.. | 17,007 |
| Issuance of Series H preferred stock.. | 51,434 |
| Deferred stock- based charges.... | (6,000) |
| Stock-based charges..... | 27,227 |
| Accretion of Series E redemption value..... | (159) |
| Conversion of convertible preferred stock.. | -- |
| Conversion of | |

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| | |
|--|-----------|
| redeemable convertible preferred stock.. | 5,124 |
| Conversion of NAR shares..... | -- |
| Issuance of common stock in initial public offering..... | 145,593 |
| Exercise of warrants..... | 2,125 |
| Litigation settlement..... | 8,406 |
| | ----- |
| Balance at December 31, 1999..... | 195,473 |
| Comprehensive income (loss): | |
| Net loss (Restated)..... | (146,053) |
| Unrealized loss on marketable security..... | (4,022) |
| Foreign currency translation..... | 134 |
| | ----- |
| Comprehensive loss (Restated)..... | (149,941) |
| | ----- |
| Issuance of common stock under employee stock purchase plan and exercise of stock options..... | 11,514 |
| Issuance of common stock for acquisitions..... | 51,276 |
| Other issuances of common stock.. | 44 |
| Repayment from stockholders..... | 2,532 |
| Repurchase of common stock..... | -- |
| Deferred stock-based charges.... | -- |
| Stock-based charges..... | 43,541 |
| Issuance of common stock in public offering.. | 428,903 |
| Effect of subsidiary equity transactions..... | 8,337 |
| Exercise of warrants..... | 11,800 |
| | ----- |
| Balance at December 31, 2000 | |

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(Restated)..... \$ 603,479
 =====

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

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HOMESTORE.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)

| | Year Ended December 31, | | |
|---|-------------------------|-------------|--------|
| | 2000 | 1999 | 1998 |
| | (Restated) | | |
| Cash flows from operating activities: | | | |
| Net loss..... | \$ (146,053) | \$ (93,007) | \$ (3) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization..... | 48,622 | 11,579 | -- |
| Accretion of distribution obligation..... | 3,909 | -- | -- |
| Provision for doubtful accounts..... | 3,468 | 1,121 | -- |
| Amortization of discount on notes payable..... | -- | 581 | -- |
| Stock-based charges..... | 55,655 | 21,227 | -- |
| In-process research and development..... | 4,048 | -- | -- |
| Litigation settlement..... | -- | 8,406 | -- |
| Other non-cash items..... | (165) | 544 | -- |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts receivable..... | (19,065) | (10,025) | -- |
| Prepaid distribution expense..... | (18,204) | (3,481) | -- |
| Other assets..... | (14,308) | (3,780) | -- |
| Accounts payable and accrued liabilities..... | 18,889 | 12,668 | (122) |
| Deferred revenue..... | 11,918 | 6,030 | -- |
| Net cash used in operating activities..... | (51,286) | (48,137) | (125) |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment..... | (41,132) | (3,941) | -- |
| Purchases of cost and equity investments..... | (32,527) | -- | -- |
| Purchases of short-term investments..... | (219,862) | -- | -- |
| Maturities of short-term investments..... | 146,320 | -- | -- |
| Acquisitions, net of cash acquired..... | (42,037) | (23,845) | -- |
| Other assets..... | -- | (2,390) | -- |
| Net cash used in investing activities..... | (189,238) | (30,176) | -- |
| Cash flows from financing activities: | | | |
| Proceeds from payment of stockholders' notes..... | 2,532 | 3,655 | -- |
| Proceeds from exercise of stock options, warrants and share issuances under employee stock purchase plan..... | 23,358 | 1,570 | -- |
| Net proceeds from issuance of common and preferred stock..... | 428,903 | 167,596 | 41 |

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| | | | |
|---|------------|-----------|-------|
| Repurchases of common stock..... | -- | (11,906) | -- |
| Transfer to restricted cash..... | (103,409) | -- | -- |
| Repayment of notes payable..... | (38,575) | (4,578) | -- |
| Issuance of notes receivable..... | (6,034) | (750) | -- |
| Subsidiary equity transactions..... | 10,943 | -- | -- |
| | ----- | ----- | ----- |
| Net cash provided by financing activities..... | 317,718 | 155,587 | 41 |
| | ----- | ----- | ----- |
| Change in cash and cash equivalents..... | 77,194 | 77,274 | (84) |
| Cash assumed from NetSelect, Inc. | -- | 13,037 | -- |
| Cash and cash equivalents, beginning of period..... | 90,382 | 71 | 155 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of period..... | \$ 167,576 | \$ 90,382 | \$ 71 |
| | ===== | ===== | ===== |

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

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HOMESTORE.COM, INC.

NOTES TO 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 Remodelors 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 large number of leading Internet portal web sites.

The accompanying consolidated financial statements and footnotes for the year ended December 31, 2000 have been restated. See Note 3 for a discussion of the restatement and a reconciliation of the Company's financial position and results of operations from financial statements previously filed to these restated financial statements.

Company History

Initial Business--Homestore was incorporated in the State of Delaware in 1993 under the name of InfoTouch Corporation ("InfoTouch") with the objective of establishing an interactive network of real estate "kiosks" for consumers to search for homes. In 1996, the Company began to develop the technology to build and operate high traffic Internet sites with content related to real estate.

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The RealSelect Venture--Effective December 4, 1996, the Company entered into a series of agreements with the National Association of REALTORS(R) and its wholly owned subsidiary REALTORS(R) Information Network (together referred to as the "NAR") and several investors (the "Investors"). Under these agreements, the Company transferred its recently developed technology and certain of its assets relating to advertising the listing of residential real estate on the Internet into NetSelect, LLC ("LLC"), a Delaware limited liability corporation, in exchange for a 46% ownership interest. The Investors contributed capital to a newly formed company, NetSelect, Inc. ("NSI"). LLC received capital funding from NSI and in-turn contributed the assets, intellectual property and the NSI capital to RealSelect, Inc. ("RealSelect"), a Delaware corporation, in exchange for common stock representing an 85% ownership interest.

Also effective December 4, 1996, RealSelect entered into a number of agreements with and issued cash and RealSelect common stock representing a 15% ownership interest to the NAR in exchange for the rights to operate the web site REALTOR.com(R) and pursue commercial opportunities relating to the listing of real estate on the Internet.

Pursuant to the agreements governing RealSelect, the Company was required to terminate its remaining activities, which were insignificant, and dispose of its remaining assets and liabilities. Accordingly, following the formation of RealSelect, NSI, LLC and the Company were only shell companies as they had no liabilities and no assets other than their respective ultimate investments in RealSelect. In addition, under the agreements, NSI was the only entity permitted to raise capital to support RealSelect which, once invested, increased NSI's ownership interests and diluted the ownership interests of the Company and the NAR.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Reorganization of RealSelect Holding Structure--Under the RealSelect agreements, 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 the Company (the "Reorganization"). The share exchange lacked economic substance since both the Company and NSI were shell companies for their respective investments in RealSelect, and because the respective underlying ownership interests of individual investors were unaffected. Accordingly, the non-substantive exchange was accounted for at historical cost (Note 4).

Since inception, the Company has incurred losses from operations and negative operating cash flows. At December 31, 2000, the Company had an accumulated deficit of \$301.8 million, cash and cash equivalents of approximately \$167.6 million, short-term investments of approximately \$75.3 million and restricted cash of \$103.4 million. The Company has no material commitments for capital expenditures over the next twelve months, has total minimum lease obligations of approximately \$44.0 million under certain noncancelable operating leases through 2005 and approximately \$11.5 million in internet portal distribution obligations through December 2003. The Company currently anticipates that its existing cash and cash equivalents and any cash generated from operations will be sufficient to fund its operating activities, capital expenditures and other obligations through at least December 31, 2001. However, in the longer term, the Company faces significant risks associated

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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 its obligations to BGI or AOL as described in Note 20, 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, it 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 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 stock owned by then-current stockholders would be reduced. Furthermore, these equity securities might have rights, preferences or privileges senior to those of existing common and preferred stock. In addition, our liquidity could be adversely impacted by the litigation referred to in Note 21.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation and Basis of Presentation--The consolidated financial statements include the accounts of the parent company and all of its majority owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

The Company's consolidated financial statements reflect the financial position, results of operations and cash flows of Homestore, formerly InfoTouch. The consolidated financial statements for 1998 primarily reflect the Company's investment in LLC accounted for under the equity method (Note 4). The consolidated financial statements following the date of the Reorganization include the accounts of RealSelect and its majority owned subsidiaries, in which the Company held a 99% ownership interest at December 31, 2000.

Use of Estimates--The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Certain Reclassifications--Certain reclassifications have been made to prior years' financial statements in order to conform to the 2000 presentation.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Cash and Cash Equivalents, Short and Long-Term Investments--All highly liquid instruments with an original maturity of three months or less are considered cash and cash equivalents, those with original maturities greater than three months and current maturities less than twelve months from the balance sheet date are considered short-term investments, and those with maturities greater than twelve months from the balance sheet date are considered long-term investments. The Company invests its excess cash in debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers and money market funds.

The Company's marketable securities and short-term investments are

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classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. Realized gains or losses and declines in value that are other than temporary, if any, on available-for-sale securities are reported in other income or expensed as incurred.

Other Investments--The Company also invests in equity instruments of privately-held companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when ownership is less than 20% and the Company does not have the ability to exercise significant influence over operations and the equity method when ownership is greater than 20% or the Company has the ability to exercise significant influence. For these investments in privately-held companies, the Company's policy is to regularly review and monitor the companies' operating performance and assumptions underlying the cash flow forecasts in assessing the carrying values. The Company identifies and records impairment losses when events and circumstances indicate that such assets might be impaired.

Restricted Cash--Restricted cash consists of cash equivalents pledged as collateral for unused letters of credit. See Note 20.

Concentration of Credit Risk--Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, short and long term investments, marketable equity security and accounts and notes receivable. The Company's accounts receivable is derived primarily from revenue earned from customers located in the United States. The Company maintains an allowance for doubtful accounts based upon the expected collectibility of accounts and notes receivable.

During the years ended December 31, 2000 and 1998, no customer accounted for more than 10% of the Company's net revenues. During the year ended December 31, 1999, one customer accounted for approximately 11% of the Company's net revenues. At December 31, 2000 and 1999, no customer accounted for more than 10% of net accounts receivable.

Fair Value of Financial Instruments--The Company's financial instruments, including cash and cash equivalents, short-term investments, accounts and notes receivable, accounts payable, and notes payable are carried at cost, which approximates their fair value due to the short-term maturity of these instruments and the relatively stable interest rate environment.

Prepaid Distribution--The Company has entered into various web portal distribution and preferred alliance agreements, which are being amortized ratably over the term of the agreement, generally two to five years. See Note 20.

Property and Equipment--Property and equipment are stated at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally 3 years for computer software and equipment and 3 to 5 years for furniture, fixtures and office equipment. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives.

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Product Development Costs--Costs incurred by the Company to develop, enhance, manage, monitor and operate the Company's web sites are generally expensed as incurred, except for certain costs relating to the acquisition and development of internal-use software that are capitalized and depreciated over estimated economic lives, generally three years or less in accordance with SOP 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". The Company had \$6.5 million of capitalized software costs and \$179,000 of accumulated amortization included in computer software and equipment at December 31, 2000. There were no capitalized software costs at December 31, 1999.

Intangible Assets--Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. Goodwill and all other purchased intangibles are being amortized on a straight-line basis over the estimated periods of benefit ranging from three to five years (Note 4). In addition, in connection with its formation, RealSelect made various payments and issued common stock to the NAR for the right to use the REALTOR.com(R) trademark and domain name, the "REALTORS(R)" trademark and the exclusive rights to use the web site for real estate listings under an exclusive lifetime operating agreement. The stock issued and payments made to the NAR, as well as certain milestone-based amounts subsequently earned by the NAR are being amortized on a straight-line basis over the estimated period of benefit of 15 years.

The Company identifies and records impairment losses on long-lived assets, including goodwill that is not identified with an impaired asset, when events and circumstances indicate that such assets might be impaired. Events and circumstances that may indicate that an asset is impaired include significant decreases in the market value of an asset, a change in the extent or manner in which an asset is used, shifts in technology, loss of key management or personnel, changes in the operating model or strategy and competitive forces.

If events and circumstances indicate that the carrying amount of an asset may not be recoverable and the expected undiscounted future cash flow attributable to the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based on the present value of estimated expected future cash flows using a discount rate commensurate with the risk involved, quoted market prices or appraised values, depending on the nature of the assets.

Revenue Recognition--The Company derives its revenues from the sale of subscription products consisting of online media and technology solutions for home and real estate professionals including web site development to real estate agents and brokers, home builders, financial service companies and property owners and managers. Revenue from technology solutions are derived from the following: (i) software license revenue, (ii) support and service revenues and (iii) web site development revenues. The Company recognizes revenues from software transactions in accordance with provisions of Statement of Position ("SOP") 97-2, "Software Revenue Recognition". Revenues from the sale of software products are recognized upon delivery of the products and satisfaction of related Company obligations, if any, provided that persuasive evidence of an arrangement exists, the fee is fixed and determinable and collection of the resulting receivable is probable. For contracts with multiple elements (e.g., delivered and undelivered products, support and other services), the Company allocates revenues to the undelivered elements of the contract based on vendor-specific objective evidence of its fair value. This vendor-specific objective evidence of fair value is the sales price of the element when sold separately or the renewal rate specified in the arrangement for licensing arrangements with terms of one year to 18 months that include customer support and unspecified software updates. Revenues allocated to

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undelivered elements are recognized when all revenue recognition criteria are met. Support and services revenues are recognized ratably over the period of the support contract. Payments for support and services are generally made in advance and are non-refundable. The products are sold in annual subscriptions and, accordingly, revenues are deferred and recognized ratably over the life of the contract, generally 12 months. These prepayments appear on the balance sheet as deferred revenues. Contracts involving web site development are accounted for using the percentage-of-

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

completion method which is generally determined based on development costs incurred relative to total estimated costs.

The Company also sells advertising banners and traditional Internet sponsorships on our web sites. The Company also sells banner advertising pursuant to contracts with terms varying from a few days to three years, which may include the guarantee of a minimum number of impressions or times that an advertisement appears in pages viewed by the users. This advertising revenue is recognized ratably based upon the lesser of impressions delivered over the total number of guaranteed impressions or ratably over the period in which the advertisement is displayed. Equity exchanged for services is recognized during the period in which the services are provided. The Company records and measures the value of equity received in exchange for services in accordance with Emerging Issues Task Force ("EITF") 00-8 "Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods or Services." The Company recognizes revenues from advertising barter transactions in accordance with EITF 99-17, "Accounting for Advertising Barter Transactions." Revenues from these transactions are recognized during the period in which the impressions are delivered. The services provided are valued based on similar cash transactions which have occurred within six months prior to the date of the barter transaction. During the year ended December 31, 2000, revenues from equity-for-services and advertising barter transactions were less than 5% of revenues. There were no revenues from these type of transactions during the year ended December 31, 1999.

Advertising Expense--Advertising costs are expensed as incurred and totaled \$18.1 million and \$10.8 million during the years ended December 31, 2000 and 1999, respectively. No advertising costs were incurred during the year ended December 31, 1998.

Stock-Based Charges--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 deemed fair value for accounting purposes 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 EITF 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):

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| | Year Ended December 31, | | |
|---------------------------------|-------------------------|----------|-------|
| | 2000 | 1999 | 1998 |
| | (Restated) | | |
| Revenues..... | \$ 6,233 | \$ -- | \$ -- |
| Cost of revenues..... | 607 | 943 | -- |
| Sales and marketing..... | 45,148 | 14,726 | -- |
| Product development..... | 572 | 447 | -- |
| General and administrative..... | 3,095 | 5,111 | -- |
| | ----- | ----- | ----- |
| | \$55,655 | \$21,227 | \$ -- |
| | ===== | ===== | ===== |

Income Taxes--Income taxes are accounted for under SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred taxes to the amount expected to be realized.

Net Loss Per Share--Net loss per share is computed by dividing the net loss applicable to common stockholders for the period by the weighted average number of common shares outstanding. Shares associated with stock options, warrants and convertible preferred stock are not included to the extent they are anti-dilutive.

Foreign Currency Translation--The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rate of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange prevailing during the year. The resulting translation adjustments are included in accumulated other comprehensive income as a separate component of stockholders' equity.

Comprehensive Income--Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. For the Company, comprehensive income consists of its reported net income or loss, the change in the foreign currency translation adjustments during a period and the net unrealized gains or losses on short-term investments and marketable equity securities.

Segments--The Company operates in one business segment, an Internet technology solution provider for home and real estate-related information and advertising products and services. Substantially all of the Company's operating results and identifiable assets are in the United States.

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Recent Accounting Developments--In June 1998, the Financial Accounting Standards Board ("FASB") issued 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 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 impact of the adoption of SFAS No. 133 is not currently expected to have a material impact on financial position, results of operations or cash flows. The Company will be required to implement SFAS No. 133 in the first quarter of fiscal 2001.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 provides guidance for revenue recognition under certain circumstances. The adoption of SAB No. 101 in 2000 did not have a significant impact on the Company's financial position, results of operations or cash flows.

In March 2000, the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB Opinion No. 25." FIN No. 44 clarifies the application of APB Opinion No. 25 for (a) the definition of an employee for purposes of applying APB Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN No. 44 became effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998, or January 12, 2000. The adoption of FIN No. 44 did not have a significant impact on the Company's financial position, results of operations or cash flows.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

3. 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 February 13, 2002, the Company concluded, based on preliminary findings of the inquiry, that its financial statements, as of, and for the year ended, December 31, 2000 would be restated and on March 11, 2002, the Audit Committee concluded its inquiry. The results of the inquiry determined that in the year 2000, certain transactions resulting in the recognition of \$36.4 million in revenue, which had been recorded based upon the belief that they were independent cash transactions, were, in fact, 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

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results for the year 2000 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 shipment of certain software products, previously recorded as revenue in 2000, did not meet the revenue recognition requirements of SOP 97-2 and, accordingly, \$5 million of revenue should have been deferred at December 31, 2000.

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 effect of adoption in the year 2000 was to reduce previously reported revenue and expense by \$7.2 million, with no effect on net loss or net loss per share. The effects of adoption were not material in years prior to 2000.

As a result of these items, we have reduced our reported revenue by \$48.6 million and increased our net loss from \$115.2 million to \$146.1 million and our net loss per share of \$(1.44) to \$(1.83).

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.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONSOLIDATED BALANCE SHEET
(in thousands, except per share amounts)

| | Year Ended December 31, 2000 | | |
|---|------------------------------|-------------|------------|
| | As Reported | Adjustments | Restated |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 180,985 | \$(13,409) | \$ 167,576 |
| Short-term investments..... | 75,295 | | 75,295 |
| Marketable equity security..... | 247 | | 247 |
| Accounts receivable..... | 44,472 | (12,444) | 32,028 |
| Current portion of notes receivable..... | 5,598 | (475) | 5,123 |
| Current portion of prepaid distribution expense..... | 49,140 | | 49,140 |
| Other current assets..... | 23,567 | (6,857) | 16,710 |

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| | | | |
|--|------------|-------------|------------|
| Total current assets..... | 379,304 | (33,185) | 346,119 |
| Prepaid distribution expense, net of current portion..... | 159,226 | | 159,226 |
| Property and equipment, net..... | 45,061 | (1,578) | 43,483 |
| Intangible assets, net..... | 194,742 | (468) | 194,274 |
| Restricted cash..... | 90,000 | 13,409 | 103,409 |
| Other assets..... | 50,322 | (3,483) | 46,839 |
| | ----- | ----- | ----- |
| Total assets..... | \$ 918,655 | \$ (25,305) | \$ 893,350 |
| | ===== | ===== | ===== |
| LIABILITIES, AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable..... | \$ 13,062 | \$ 100 | \$ 13,162 |
| Accrued liabilities..... | 49,235 | (4,173) | 45,062 |
| Deferred revenue..... | 24,194 | 9,652 | 33,846 |
| Current portion of notes payable.... | 411 | | 411 |
| | ----- | ----- | ----- |
| Total current liabilities..... | 86,902 | 5,579 | 92,481 |
| Distribution obligation..... | 189,848 | | 189,848 |
| Deferred revenue..... | 2,896 | | 2,896 |
| Other non-current liabilities..... | 4,646 | | 4,646 |
| | ----- | ----- | ----- |
| | 284,292 | 5,579 | 289,871 |
| | ----- | ----- | ----- |
| Commitments and contingencies (Note 20) | | | |
| Stockholders' equity: | | | |
| Common stock..... | 83 | | 83 |
| Additional paid-in capital..... | 1,027,423 | | 1,027,423 |
| Treasury stock..... | (16,556) | | (16,556) |
| Notes receivable from stockholders.. | (7,938) | | (7,938) |
| Deferred stock-based charges..... | (97,724) | | (97,724) |
| Accumulated other comprehensive income..... | (23) | | (23) |
| Accumulated deficit..... | (270,902) | (30,884) | (301,786) |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 634,363 | (30,884) | 603,479 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$ 918,655 | \$ (25,305) | \$ 893,350 |
| | ===== | ===== | ===== |

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

Year Ended December 31, 2000

As Accounting

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| | Reported | Adjustments | Change | Restated |
|---|--------------|-------------|------------|--------------|
| | ----- | ----- | ----- | ----- |
| Revenues..... | \$ 229,967 | \$ (41,395) | \$ (7,250) | \$ 181,322 |
| Cost of revenues..... | 62,239 | | (1,017) | 61,222 |
| | ----- | ----- | ----- | ----- |
| Gross profit..... | 167,728 | (41,395) | (6,233) | 120,100 |
| | ----- | ----- | ----- | ----- |
| Operating expenses: | | | | |
| Sales and marketing..... | 175,044 | (8,689) | (6,233) | 160,122 |
| Product development..... | 15,554 | | | 15,554 |
| General and administrative..... | 60,700 | (1,090) | | 59,610 |
| Amortization of intangible assets..... | 42,900 | (32) | | 42,868 |
| In-process research and development..... | 4,048 | | | 4,048 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses..... | 298,246 | (9,811) | (6,233) | 282,202 |
| | ----- | ----- | ----- | ----- |
| Loss from operations..... | (130,518) | (31,584) | -- | (162,102) |
| Interest income, net..... | 23,031 | | | 23,031 |
| Other expense, net..... | (7,682) | 700 | | (6,982) |
| | ----- | ----- | ----- | ----- |
| Net loss applicable to common stockholders..... | \$ (115,169) | \$ (30,884) | -- | \$ (146,053) |
| | ===== | ===== | ===== | ===== |
| Basic and diluted net loss per share applicable to common Stockholders..... | \$ (1.44) | \$ (.39) | \$ -- | \$ (1.83) |
| | ===== | ===== | ===== | ===== |
| Shares used to calculate basic and diluted net loss per share applicable to common stockholders..... | 79,758 | 79,758 | 79,758 | 79,758 |
| | ===== | ===== | ===== | ===== |

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

| | Year Ended December 31, 2000 | | |
|---|------------------------------|-------------|--------------|
| | As Reported | Adjustments | Restated |
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net loss..... | \$ (115,169) | \$ (30,884) | \$ (146,053) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization..... | 49,064 | (442) | 48,622 |
| Accretion of distribution obligation..... | 3,909 | | 3,909 |
| Provision for doubtful accounts..... | 3,468 | | 3,468 |
| Stock-based charges..... | 55,655 | | 55,655 |

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| | | | |
|---|------------|-------------|------------|
| In-process research and development..... | 4,048 | | 4,048 |
| Other non-cash items..... | (165) | | (165) |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts receivable..... | (31,509) | 12,444 | (19,065) |
| Prepaid distribution expense..... | (18,204) | | (18,204) |
| Other assets..... | (23,248) | 8,940 | (14,308) |
| Accounts payable and accrued liabilities.... | 22,961 | (4,072) | 18,889 |
| Deferred revenue..... | 2,266 | 9,652 | 11,918 |
| | ----- | ----- | ----- |
| Net cash used in operating activities..... | (46,924) | (4,362) | (51,286) |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment..... | (43,119) | 1,987 | (41,132) |
| Purchases of cost and equity investments.... | (33,927) | 1,400 | (32,527) |
| Purchases of short-term investments..... | (219,862) | | (219,862) |
| Maturities of short-term investments..... | 146,320 | | 146,320 |
| Acquisitions, net of cash acquired..... | (42,537) | 500 | (42,037) |
| | ----- | ----- | ----- |
| Net cash used in investing activities..... | (193,125) | 3,887 | (189,238) |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Proceeds from payment of stockholders' notes..... | 2,532 | | 2,532 |
| Proceeds from exercise of stock options, warrants and share issuances under employee stock purchase plan..... | 23,358 | | 23,358 |
| Net proceeds from issuance of common and preferred stock..... | 428,903 | | 428,903 |
| Transfer to restricted cash..... | (90,000) | (13,409) | (103,409) |
| Repayment of notes payable..... | (38,575) | | (38,575) |
| Issuance of notes receivable..... | (6,509) | 475 | (6,034) |
| Subsidiary equity transactions..... | 10,943 | | 10,943 |
| | ----- | ----- | ----- |
| Net cash provided by financing activities... | 330,652 | (12,934) | 317,718 |
| | ----- | ----- | ----- |
| Change in cash and cash equivalents..... | 90,603 | (13,409) | 77,194 |
| Cash and cash equivalents, beginning of period..... | 90,382 | -- | 90,382 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of period.... | \$ 180,985 | \$ (13,409) | \$ 167,576 |
| | ===== | ===== | ===== |

HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

4. REORGANIZATION OF REALSELECT:

As described in Note 1, on February 4, 1999, RealSelect was reorganized through a non-substantive exchange of the Company's capital stock for all of the outstanding capital stock of NSI, including the assumption of warrants and options to acquire common stock. Accordingly, the Company issued the following capital stock to NSI stockholders in exchange for an equivalent number of shares (in thousands, unaudited):

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| | |
|--|--------|
| Common stock..... | 12,480 |
| Series A convertible preferred stock..... | 1,378 |
| Series B convertible preferred stock..... | 191 |
| Series C convertible preferred stock..... | 614 |
| Series D convertible preferred stock..... | 681 |
| Series E redeemable convertible preferred stock..... | 325 |
| Series F convertible preferred stock..... | 1,664 |
| Options to purchase common stock..... | 6,560 |
| Warrants to purchase common stock..... | 775 |
| Warrants to purchase preferred stock..... | 5 |

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Because the exchange did not affect the economic interests of NSI and Company stockholders, the Reorganization has been accounted for as a combination of the historical assets and liabilities of the two individual companies at February 4, 1999. At the date of the Reorganization, NSI assets, liabilities and stockholders' equity were as follows (in thousands):

| | February 4, 1999 ----- (unaudited) |
|---|---|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents..... | \$ 13,037 |
| Other current assets..... | 8,952 |
| | ----- |
| Total current assets..... | 21,989 |
| Prepaid distribution expense..... | 7,072 |
| Property and equipment, net..... | 2,373 |
| Intangible assets, net..... | 19,463 |
| Other..... | 286 |
| | ----- |
| | \$ 51,183 |
| | ===== |
| LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY | |
| Current liabilities: | |
| Accounts payable and accrued liabilities..... | \$ 12,473 |
| Deferred revenue..... | 6,065 |
| Current portion of notes payable..... | 1,746 |
| | ----- |
| Total current liabilities..... | 20,284 |
| Notes payable..... | 3,265 |
| | ----- |
| Total liabilities..... | 23,549 |
| | ----- |
| Redeemable convertible preferred stock..... | 4,963 |
| | ----- |

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| | |
|---|-----------|
| Convertible preferred stock..... | 5 |
| Common stock..... | 2 |
| Additional paid-in capital..... | 98,129 |
| Treasury stock at cost..... | (1,770) |
| Notes receivable from stockholders..... | (3,230) |
| Deferred stock charges..... | (10,079) |
| Accumulated deficit..... | (60,386) |
| | ----- |
| Total stockholders' equity..... | 22,671 |
| | ----- |
| | \$ 51,183 |
| | ===== |

5. ACQUISITIONS:

The Enterprise

In March 1998, NSI acquired all the outstanding stock of The Enterprise of America, Ltd. ("The Enterprise"), a provider of web hosting services for real estate brokers, in exchange for aggregate consideration consisting of 525,000 shares of common stock with an estimated fair value of \$525,000, which is based on the terms and preferences of the shares issued in the transaction relative to the value received by the Company in its most recent financing prior to the acquisition, a note payable in the amount of \$2.2 million, \$705,000 in cash

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

and other acquisition-related expenses and the assumption of \$946,000 of net liabilities. The acquisition has been accounted for as a purchase. The excess of purchase consideration over net tangible assets of \$3.9 million has been allocated to goodwill which is being amortized on a straight-line basis over five years. The purchase agreement also provides for certain contingent payments in the event that predetermined levels of sales are achieved. Such payments, if any, will be accounted for as compensation expense in the period earned and in no event shall such aggregate payments exceed \$1.0 million. For the years ended December 31, 1998 and 1999, no contingent payments were required under the terms of the agreement.

MultiSearch

In July 1998, NSI acquired all the outstanding stock of MultiSearch Solutions, Inc. ("MultiSearch"), the initial developer of the HomeBuilder.com web site, in exchange for issuing 325,000 shares of Series E redeemable convertible preferred stock with an estimated fair value of \$4.8 million, which is based on the terms and preferences of the shares issued in the transaction relative to the value received by the Company in its most recent financing prior to the acquisition, a note payable in the amount of \$3.6 million, \$875,000 in cash and other acquisition-related expenses and the assumption of \$657,000 of net liabilities. The acquisition has been accounted for as a purchase. The excess of total purchase consideration over net tangible assets acquired of \$9.4 million has been allocated to goodwill which is being amortized on a straight-line basis over five years. The purchase agreement also provides for certain contingent payments in the event that predetermined levels of sales and earnings are achieved. Such payments, if any, will be accounted for as compensation expense in the period earned. For

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the year ended December 31, 1998, \$360,000 of expense was recognized under the terms of the agreement.

SpringStreet

In June 1999, the Company acquired SpringStreet, Inc. ("SpringStreet"), a leading provider of online listings of homes for rent, for common stock and convertible preferred stock equivalent to an aggregate of 5,309,058 shares of common stock. The acquisition costs aggregated approximately \$51.7 million and were based on the privileges and preferences of the shares issued in the transaction relative to the value received by the Company in its April 1999 Series G financing and certain acquisition expenses. The SpringStreet acquisition was accounted for using the purchase method of accounting. The excess of total purchase consideration over net tangible assets acquired of \$41.3 million has been allocated to goodwill and other purchased intangible assets which are being amortized on a straight-line basis over estimated lives ranging from three to five years.

Homefair

In October 1999, the Company acquired The Homebuyers Fair, Inc. and FAS-Hotline, Inc., collectively Homefair, one of the largest moving and relocation sites on the Internet, for \$35.8 million in cash and other acquisition related expenses, a \$37.5 million note payable and 250,000 shares of common stock, with an estimated fair value of \$11.2 million, for a total aggregate purchase price of \$83.7 million. The acquisition has been accounted for as a purchase. The acquisition cost has been allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values. The excess of purchase consideration over net tangible assets acquired of \$83.3 million has been allocated to goodwill and other purchased intangible assets and is being amortized on a straight-line basis over estimated lives ranging from three to five years.

WyldFyre

In March 2000, the Company acquired WyldFyre Technologies, Inc. ("WyldFyre"), a leading developer of technology solutions for real estate professionals to access MLS information via the Internet, for 589,426 shares of its common stock with an estimated fair value for accounting purposes of \$34.0 million. The acquisition has

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

been accounted for as a purchase. The acquisition cost has been allocated to the assets acquired and liabilities assumed based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of \$34.3 million has been allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over estimated lives ranging from three to five years. During the year ended December 31, 2000, a portion of the purchase price was charged to acquired in-process research and development ("IPR&D") upon completion of the purchase price valuation by a third party.

Top Producer

In May 2000, the Company acquired Top Producer Systems, Inc. ("Top Producer"), a leading provider of leads management and marketing software for

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real estate professionals, for \$12.1 million in cash and 473,538 shares of its common stock with an estimated fair value of \$12.1 million. The shares vest over a three-year period and are contingent upon the Top Producer's chief executive officer's employment over a three-year period, and accordingly, the value of such shares has been recorded in deferred stock-based charges. Contingent purchase price of approximately \$16.2 million may also be paid in cash or stock, if certain defined performance targets are met during the years ending December 31, 2000 through December, 31 2004. The acquisition has been accounted for as a purchase. The acquisition cost has been allocated to the assets acquired and liabilities assumed based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of \$27.3 million has been allocated to goodwill, deferred compensation and other identifiable intangible assets and is being amortized on a straight-line basis over estimated lives ranging from three to five years. During the year ended December 31, 2000, a portion of the purchase price was charged to acquired IPR&D upon completion of the purchase price valuation by an independent third party.

The Hessel Group

In September 2000, the Company acquired The Hessel Group ("THG"), a leading provider of technology-driven solutions and services to the relocation industry, for \$15.0 million in cash and assumption of THG's option plan consisting of 135,421 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 and liabilities assumed based on estimates of their respective fair values. The excess of purchase consideration over net tangible assets acquired of \$19.3 million has been allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over estimated lives of five years.

The following summarized unaudited pro forma financial information excludes the acquisitions of WyldFyre, Top Producer and THG. The pro forma effect of the WyldFyre, Top Producer and THG transactions are immaterial for all periods presented and therefore are not included in the pro forma information. As such, for the year ended December 31, 2000 no pro-forma information has been presented. This information assumes the Reorganization and the acquisitions of SpringStreet and Homefair occurred at the beginning of the period (in thousands, except per share amounts):

| | Year Ended December 31, 1999 |
|---|------------------------------------|
| | ----- (Unaudited) |
| Revenues..... | \$ 73,367 |
| Net loss applicable to common stockholders..... | (132,046) |
| Net loss per share applicable to common stockholders: | |
| Basic and diluted..... | \$ (2.92) |
| Weighted average shares..... | 45,238 |

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In-process Research and Development

During the year ended December 31, 2000, approximately \$4.0 million of the purchase price from the acquisitions of WyldFyre and Top Producer was charged to acquired IPR&D upon completion of the purchase price valuation by a third party.

The amounts allocated to the IPR&D represented the purchased IPR&D for seven projects that had not yet reached technological feasibility and had no alternative future use. The value of these projects was determined by using the income approach. The income approach values an asset based on the earnings capacity of the asset based on the future cash flows that could potentially be generated by the asset over its estimated remaining life. The future cash flows are discounted to their present value utilizing a discount rate which would provide sufficient return to a potential investor to estimate the value of the subject asset. The present value of the cash flows over the life of the asset are summed to equal the estimated value of the asset.

To determine the value of IPR&D, the expected future cash flows, including costs to achieve technological feasibility, were discounted at a rate of 28%, taking into account risks associated with timely development and roll-out of the Company's in-process products, as well as strong growth and profit margins. At the acquisition date, it was estimated that the seven projects under development ranged from 5% to 81% complete. At the time of the valuation, these projects were expected to be completed within twelve months.

6. SHORT-TERM INVESTMENTS:

The following table summarizes the Company's investments in available-for-sale securities (in thousands):

| | December 31, 2000 | | | |
|---------------------------------|-------------------|---------------------|----------------------|-------------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| Short-term investments..... | \$75,334 | \$ -- | \$ 39 | \$75,295 |
| Marketable equity security..... | \$ 365 | \$ -- | \$ 118 | \$ 247 |
| | December 31, 1999 | | | |
| | | | | |
| Marketable equity security..... | \$ 365 | \$3,865 | \$ -- | \$ 4,230 |

Short-term investments consists primarily of commercial paper. There were no short-term investments at December 31, 1999. The contractual maturities of available-for-sale debt securities at December 31, 2000 are all due within one year. Marketable equity security consists of equity instruments of a publicly-held company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

7. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

| | December 31, | |
|---|---------------|---------------|
| | ----- 2000 | 1999 ----- |
| | (Restated) | |
| Computer software and equipment..... | \$30,950 | \$ 5,522 |
| Furniture, fixtures and office equipment..... | 4,962 | 1,588 |
| Leasehold improvements..... | 15,332 | 1,421 |
| | ----- | ----- |
| | 51,244 | 8,531 |
| Less: accumulated depreciation..... | (7,761) | (2,226) |
| | ----- | ----- |
| | \$43,483 | \$ 6,305 |
| | ===== | ===== |

Depreciation expense for the years ended December 31, 2000 and 1999 was \$5.5 million and \$1.4 million, respectively. The Company held no depreciable assets in 1998.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

8. INTANGIBLE ASSETS:

Intangible assets consist of the following (in thousands):

| | December 31, | |
|-------------------------------------|---------------|---------------|
| | ----- 2000 | 1999 ----- |
| | (Restated) | |
| Purchased content..... | \$ 64,680 | \$ 64,680 |
| Goodwill..... | 117,160 | 56,642 |
| Porting relationships..... | 10,000 | 10,000 |
| Purchased technology..... | 21,580 | 5,000 |
| NAR operating agreement..... | 7,405 | 7,405 |
| Other..... | 30,072 | 7,614 |
| | ----- | ----- |
| | 250,897 | 151,341 |
| Less: accumulated amortization..... | (56,623) | (12,729) |
| | ----- | ----- |
| | \$194,274 | \$138,612 |

=====

9. OTHER ASSETS:

Other assets consist of the following (in thousands):

| | December 31, | |
|----------------------------------|--------------|---------|
| | 2000 | 1999 |
| | (Restated) | |
| Cost and equity investments..... | \$41,931 | \$3,123 |
| Other..... | 4,908 | 1,077 |
| | ----- | ----- |
| | \$46,839 | \$4,200 |
| | ===== | ===== |

10. ACCRUED LIABILITIES:

Accrued liabilities consist of the following (in thousands):

| | December 31, | |
|---|--------------|----------|
| | 2000 | 1999 |
| | (Restated) | |
| Accrued payroll and related benefits..... | \$16,705 | \$ 7,306 |
| Accrued distribution fees..... | 5,576 | 5,724 |
| Accrued royalties..... | 11,161 | 3,091 |
| Other..... | 11,620 | 7,566 |
| | ----- | ----- |
| | \$45,062 | \$23,687 |
| | ===== | ===== |

11. RELATED-PARTY TRANSACTIONS:

In March 1999, the NAR received shares of RealSelect common stock convertible into 297,620 shares of Company common stock in satisfaction of certain obligations under the NAR operating agreement totaling \$1.0 million.

During the year ended December 31, 1999, the Company issued promissory notes to employees of the Company totaling \$13.0 million for the exercise of stock options and related expenses. These notes are full recourse and collateralized by common stock of the Company and bear a weighted average interest of 5.13% per annum. These notes are classified as a component of stockholders' equity.

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Approximately \$126,000 and \$12.8 million of these notes are due in 2003 and 2004, respectively.

During 2000, the Company received payments, net of accrued interest, of approximately \$2.5 million in connection with the issuance of these notes. Additionally, the Company repurchased 471,007 shares of common stock for approximately \$2.9 million in exchange for the cancellation of promissory notes of equal value.

12. NOTES PAYABLE:

The Company repaid approximately \$38.6 million in notes payable during 2000. At December 31, 2000, the Company had a \$411,000 non-interest bearing note payable outstanding, which has been discounted at 10%. This note is due in 2001.

13. STOCK PLANS:

Option Plans

Prior to the Reorganization, the Company granted stock options under the InfoTouch 1994 Stock Incentive Plan. In connection with the formation of RealSelect, options to purchase 1,326,000 shares of common stock, representing all outstanding options granted prior to December 4, 1996, became fully vested. In December 1996, the Company granted options to purchase 275,000 shares of common stock with an exercise price per share of \$.06. In 1997, options to purchase 258,000 shares at \$.45 per share were canceled. In 1998, options to purchase 1,328,000 shares at a weighted average exercise price of \$.45 were exercised. Accordingly, at December 31, 1998 and up through the date of the Reorganization, options to purchase 15,000 shares were outstanding with a weighted average exercise price of \$.64 per share.

In connection with the Reorganization, the Company assumed the NSI 1996 Stock Incentive Plan (the "1996 Plan") which provides for the grant of options to purchase up to 10,000,000 common shares. Under the terms of the plan, options and other equity incentive awards may be granted to employees, officers, directors and consultants at the then-current market value of the Company's common shares, as determined by the Board of Directors. Options granted generally vest over four years, 25% for the first year and monthly thereafter over the remaining three years, and expire 10 years after the date of grant.

In January 1999, the Board of Directors adopted, and in March 1999 the Company's stockholders approved, the 1999 Equity Incentive Plan (the "1999 Plan") to replace the 1996 Plan. The 1999 Plan provides for the issuance of both non-statutory and incentive stock options to employees, officers, directors and consultants of the Company. The total number of shares of common stock reserved for issuance under the 1999 Plan is equal to that number previously reserved and available for grant under the 1996 Plan. The Company will not issue new options under the 1996 Plan. In April 1999 and June 1999, the Board of Directors authorized, and the stockholders approved, an increase in the number of shares reserved for issuance under the 1999 Plan by an additional 3,000,000 shares and 625,000 shares, respectively.

In June 1999, the Board of Directors adopted, and the stockholders approved, the 1999 Stock Incentive Plan (the "SIP"). The SIP reserves 4,900,000 shares of common stock for future grants. The SIP contains a provision for an automatic increase in the number of shares available for grant starting January 1, 2000 and each January thereafter by an amount equal to 4.5% of the outstanding shares as of the preceeding December 31; provided however that it does not exceed 20 million shares. In accordance with the provisions of the 1999 Stock Incentive Plan, the number of options available for grant was

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increased by 3,158,509 shares in January 2000.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In September 2000, in connection with the acquisition of THG, the Company assumed the Hessel 2000 Stock Option Plan. This Plan has 400,000 shares authorized for issuance with 135,421 options issued and outstanding. Options to be granted under this Plan will be nonqualified options and generally vest 20% after one year and monthly thereafter over the remaining four years and expire ten years after the date of grant.

The following table summarizes the activities under the option plans (including the InfoTouch, SpringStreet, and THG options) for the years ended December 31, 1998, 1999 and 2000 (shares in thousands):

| | Number of Shares | Price Per Share | Weighted Average Exercise Price |
|---------------------------------------|------------------------|--------------------|--|
| | ----- | ----- | ----- |
| Outstanding at December 31, 1997..... | 4,453 | \$ 0.05 to \$ 0.90 | \$ 0.26 |
| Granted..... | 4,782 | 1.00 to 1.60 | 1.21 |
| Exercised..... | (2,434) | 0.06 to 1.00 | .31 |
| Cancelled..... | (426) | 0.30 to 1.00 | .71 |
| Outstanding at December 31, 1998..... | 6,375 | .05 to 1.60 | .91 |
| | ----- | ----- | ----- |
| SpringStreet options assumed..... | 719 | .36 to 9.83 | 3.36 |
| Granted..... | 10,214 | 2.00 to 69.63 | 13.52 |
| Exercised..... | (5,967) | .05 to 9.83 | 2.20 |
| Cancelled..... | (1,072) | .30 to 50.50 | 4.29 |
| Outstanding at December 31, 1999..... | 10,269 | .06 to 69.63 | 12.60 |
| | ----- | ----- | ----- |
| The Hessel Group options assumed..... | 135 | 36.00 to 47.13 | 39.77 |
| Granted..... | 7,483 | 16.63 to 89.25 | 34.98 |
| Exercised..... | (1,708) | .30 to 34.50 | 4.44 |
| Cancelled..... | (1,954) | .36 to 89.25 | 25.16 |
| | ----- | ----- | ----- |
| Oustanding at December 31, 2000..... | 14,225 | \$.06 to \$89.25 | \$23.79 |
| | ===== | ===== | ===== |

NSI options granted during the years ended December 31, 1997 and 1998 and options granted by the Company during the year ended December 31, 1999 resulted in total compensation of \$1.0 million, \$9.5 million and \$13.4 million, respectively, and were recorded as deferred stock compensation in stockholders' equity. This deferred compensation represented the difference between the deemed fair value of the Company's common stock for accounting purposes and the exercise price of these options at the date of grant. The deferred stock compensation is included in cost of revenues, sales and marketing, product development and general and administrative expenses in the consolidated statement of operations over the related vesting period of the options. Common stock available for future grants as of December 31, 2000 was 149,270 shares.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Additional information with respect to the outstanding options at December 31, 2000 is as follows (shares in thousands):

| Prices: | Options Outstanding | | | Options Exercisable | |
|-----------------------|---------------------|---|------------------------|---------------------|------------------------|
| | Number of Shares | Weighted Average Remaining Contractual Life | Average Exercise Price | Number of Shares | Average Exercise Price |
| \$.30 to 1.60..... | 1,305 | 7.5 | \$ 1.09 | 975 | \$ 1.04 |
| \$ 2.00 to 3.57..... | 460 | 8.1 | 2.68 | 376 | 2.64 |
| \$ 8.00 to 9.83..... | 4,047 | 8.3 | 8.87 | 2,589 | 8.81 |
| \$16.63 to 24.63..... | 1,144 | 9.2 | 21.49 | 81 | 20.00 |
| \$25.13 to 36.00..... | 4,929 | 9.4 | 29.74 | 430 | 29.82 |
| \$45.00 to 54.00..... | 1,765 | 9.4 | 47.85 | 75 | 48.04 |
| \$68.38 to 89.25..... | 575 | 9.1 | 76.67 | 62 | 74.27 |
| | ----- | --- | ----- | ----- | ----- |
| \$.30 to 89.25..... | 14,225 | 8.9 | \$23.79 | 4,588 | \$10.36 |
| | ===== | === | ===== | ===== | ===== |

The Company follows the intrinsic value method in accounting for its stock options. Had compensation cost been recognized based on the fair value at the date of grant for options granted in 2000, 1999 and 1998, the pro forma amounts of the Company's net loss and net loss per share for the years ended December 31, 2000, 1999 and 1998 would have been as follows:

| | 2000 | 1999 | 1998 |
|---|--------------|--------------|--------|
| | (Restated) | | |
| Net loss applicable to common stockholders: | | | |
| As reported..... | \$ (146,053) | \$ (95,306) | \$ (3) |
| Pro forma..... | \$ (218,888) | \$ (104,669) | \$ (3) |
| Net loss per share-basic and diluted: | | | |
| As reported..... | \$ (1.83) | \$ (2.32) | \$-- |
| Pro forma..... | \$ (2.74) | \$ (2.54) | \$-- |

The fair value for each option granted was estimated at the date of grant using a Black-Scholes option pricing model, assuming no expected dividends and the following weighted-average assumptions:

Year Ended December 31

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| | 2000 ----- | 1999 ----- | 1998 ----- |
|--------------------------------|---------------|---------------|---------------|
| Risk-free interest rates..... | 6% | 6% | 5% |
| Expected lives (in years)..... | 4 | 5 | 4 |
| Dividend yield..... | 0% | 0% | 0% |
| Expected volatility..... | 100% | 85% | 0% |

Options granted prior to the Company's initial public offering were valued using the minimum value method and therefore volatility was not applicable. The weighted-average fair value of options granted during the years ended December 31, 2000, 1999 and 1998 was \$25.47, \$6.74 and \$0.97, respectively.

Employee Stock Purchase Plan

In July 1999, the Company adopted, and the stockholders approved, the 1999 Employee Stock Purchase Plan ("ESPP"). Under the terms of the ESPP, the initial aggregate number of shares of stock that may be issued is 750,000, cumulatively increased on January 1, 2000 and each January 1 thereafter until and including

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

January 1, 2009 by an amount equal to half of a percent (.5%) of the outstanding shares of stock as of the preceding December 31; provided, however, that the aggregate shares reserved under the plan shall not exceed 5,000,000 shares. In January 2000, the amount available under the plan was increased by 413,806. Employees can choose to have up to 15% of their annual base earnings withheld, but not to exceed \$15,000, to purchase the Company's common stock. The purchase price of the common stock is 85% of the lesser of the fair market value as of the beginning or ending of the offering period in February and August, as defined in the Plan. The first offering period started on August 1, 1999. During 2000, the Company issued 230,590 shares of common stock under the ESPP at a weighted issuance price of \$17.54 per share.

14. WARRANTS:

In connection with the Reorganization, the Company assumed warrants to purchase common stock. The warrants issued can be converted at the election of the holder, without the payment by the holder of any additional consideration, into shares of the Company's common stock having a value equal to the fair market value of the total number of shares subject to the warrant less the exercise price for that number of shares. The following describes the terms of and accounting for the warrants assumed in the Reorganization and issued subsequently.

In connection with entering into a web portal distribution agreement in April 1998, the Company issued warrants to purchase 792,752 shares of the Company's common stock at a weighted average exercise price of \$7.00 per share. In August 1999, warrants to purchase 107,527 shares of common stock were exercised at an exercise price of \$18.60 per share. The Company incurred a total charge of \$12.6 million which is being amortized to sales and marketing expense over the term of the distribution agreement, approximately two years. During the year ended December 31, 2000, warrants to purchase 665,064 shares of the Company's common stock were exercised at a weighted average exercise price of \$4.46 per share.

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In January 1999, NSI entered into an equipment leasing arrangement which provided for the sale and leaseback of certain existing equipment and lease financing for additional equipment needs. At December 31, 1999, the Company had leased \$3.0 million of equipment, which covers the total availability under the agreement. In addition, the agreement provides the lessor with warrants to purchase up to 5,000 shares of Series F preferred stock at an exercise price of \$24.00 per share, which currently represent warrants to purchase 25,000 shares of common stock at an exercise price of \$4.80 per share. The Company determined that the fair value of the warrants approximated \$115,000 on the date of grant.

In February 1999, the Company closed a private equity offering to real estate brokers under the Company's Broker Gold program. The Company also issued warrants to purchase up to 364,110 shares of our common stock with an exercise price of \$20.00 per share. All warrants issued are fully vested, non-forfeitable and are immediately exercisable. The Company incurred a non-cash charge of approximately \$4.1 million which is being recognized as expense over the remaining term of the initial two year Broker Gold program agreements. During the year ended December 31, 2000, warrants to purchase 165,901 shares of the Company's common stock were exercised.

In August 1999, in connection with a marketing agreement, the Company issued warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$20.00 per share. The Company incurred a non-cash charge of \$3.5 million which is being recognized over the two-year term of the marketing agreement. All warrants issued were fully vested, non-forfeitable and were immediately exercisable upon the closing of the IPO. These warrants were exercised in July 2000.

In October 1999, in connection with a marketing agreement, the Company issued warrants to purchase 119,048 shares of the Company's common stock at an exercise price of \$42.00 per share. The Company incurred

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

a non-cash charge of \$1.1 million which is being recognized over the two-year term of the marketing agreement. All warrants issued were fully vested, non-forfeitable and were immediately exercisable. These warrants expired in April 2000.

Throughout 1999, the Company issued warrants to purchase 910,844 shares of common stock at a weighted average price of \$21.18 per share to Multiple Listing Services ("MLS") that agreed to provide their real estate listings to us for publication on the Internet on a national basis. All warrants issued were fully vested, non-forfeitable and were immediately exercisable. The Company incurred a total non-cash charge of approximately \$11.2 million which is being recognized as expense over the term of the applicable MLS agreement, approximately one to two years. During the year ended December 31, 2000, warrants to purchase 201,034 shares of the Company's common stock were exercised at a weighted average exercise price of \$20.00 per share.

In February 2000, the Company issued warrants to purchase 470,089 shares of the Company's common stock at an exercise price of \$66.50 per share to the Broker Gold program members who elected to renew their existing listing agreements with the Company for an additional two years at the end of their existing two-year term. All warrants issued were fully vested, non-forfeitable

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and were immediately exercisable. The non-cash charge for the warrants totaled approximately \$21.9 million which is being recognized as expense over three years.

In March 2000, in connection with a marketing agreement, the Company issued warrants to purchase 400,000 shares of the Company's common stock at an exercise price of \$35.63 per share. All warrants issued were fully vested, non-forfeitable and were immediately exercisable. The Company incurred a non-cash charge of \$5.0 million which is being recognized over the one-year term of the marketing agreement.

Throughout 2000, the Company issued warrants to purchase 30,739 shares of the Company's common stock at a weighted average price of \$85.45 per share to Multiple Listing Services ("MLS") that agreed to provide their real estate listings to the Company for publication on the Internet on a national basis. All warrants issued were fully vested, non-forfeitable and were immediately exercisable. The Company incurred a total non-cash charge of approximately \$1.8 million which is being recognized as expense over the term of the applicable MLS agreement, approximately two to three years.

The Company recognized \$27.3 million and \$8.7 million in stock-based charges for the years ending December 31, 2000 and 1999, respectively in connection with the issuance of warrants. There were no stock-based charges for 1998. At December 31, 2000 the aggregate number of warrants outstanding were 1,882,607 with a weighted-average exercise price of \$38.03.

15. CAPITALIZATION:

On April 5, 1999, the Board of Directors effected a two-for-one stock split of the outstanding shares of common stock. All share and per share information included in these consolidated financial statements have been retroactively adjusted to reflect this stock split.

On August 4, 1999, the Board of Directors effected a five-for-two stock split of the outstanding shares of common stock. All share and per share information included in these consolidated financial statements have been retroactively adjusted to reflect this stock split.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Convertible preferred stock immediately prior to the initial public offering on August 4, 1999 was composed of the following (in thousands):

| | Shares | | Liquidation |
|---------------|------------|-------------|-------------|
| | Authorized | Outstanding | Amount |
| Series A..... | 1,647 | 1,378 | \$ 4,561 |
| Series B..... | 353 | 191 | 1,379 |
| Series C..... | 614 | 614 | 5,054 |
| Series D..... | 681 | 681 | 10,991 |
| Series F..... | 2,100 | 1,760 | 44,686 |
| Series G..... | 341 | 341 | 17,231 |

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| | | | |
|-------------------|-------|-------|-----------|
| Series H..... | 845 | 845 | 42,358 |
| Undesignated..... | 3,094 | -- | -- |
| | ----- | ----- | ----- |
| | 9,675 | 5,810 | \$126,260 |
| | ===== | ===== | ===== |

On August 4, 1999, the Company completed its initial public offering of common stock. At that time, all issued and outstanding shares of the Company's convertible preferred stock, except for one share of Series A preferred stock issued to the NAR, were converted into an aggregate of 29,049,369 shares of common stock.

Immediately prior to the initial public offering, the holders of the convertible preferred stock had the following rights:

Voting--Each share of convertible preferred stock has a number of votes equal to the number of shares of common stock then issuable upon its conversion. The convertible preferred stock generally votes together with the common stock and not as a separate class.

Dividends--The holders of each series of convertible preferred stock are entitled to receive dividends when, as and if declared by the Board of Directors at a rate of 6.5% of the respective issuance price per share per annum. The holders of Series D and Series F are entitled to receive cumulative dividends in preference to the holders of Series A, Series B, and Series C preferred stock and Series E redeemable convertible preferred stock and the common stock. In the event of a public offering of the Company's equity securities meeting certain minimum size requirements and timing, as defined in the Certificate of Incorporation, dividends declared, if any, will not be payable and will lapse. The holders of the Series D and Series F convertible preferred stock are entitled to dividends at their stated rate whether or not earned which are payable upon conversion provided the Company's public offering does not meet certain minimum size requirements and timing. Accordingly, the Company has recorded accretion from the date of the Reorganization of \$2.3 million for the year ended December 31, 1999 related to the Series D and Series F dividends. No dividends have been declared or paid from inception.

Liquidation--In the event of any liquidation or winding up of the Company, the holders of each series of convertible preferred stock will be entitled to receive, in preference to the holders of common stock, any distribution of assets of the Company equal to the sum of the respective issuance price of such shares plus any accrued and unpaid dividends. The holders of Series D and Series F are entitled to receive any distribution of assets of the Company before the holders of Series A, Series B, and Series C convertible preferred stock and Series E redeemable convertible preferred stock. The holders of Series A, Series B, Series C and Series E preferred stock are also entitled to receive an amount equal to the dividend rate (6.5%) accruing on a quarterly basis on the last day of each calendar quarter for the period from the respective date of issuance of such shares to the date of liquidation.

After the full liquidation preference on all outstanding shares of convertible preferred stock has been paid, any remaining funds and assets of

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the Company will be distributed pro rata among the holders of the common stock.

Redemption--If a liquidation or initial public offering has not occurred by June 30, 2002, the holders of Series E redeemable convertible preferred stock are entitled to a redemption out of the assets of the Company equal to the Series E liquidation preference. The Company recorded accretion from the date of the Reorganization of \$154,000 for the year ended December 31, 1999 related to the Series E redeemable convertible preferred stock redemption value.

Conversion--Each share of convertible preferred stock is convertible at the holder's option at any time into common stock, according to a ratio which is five-for-one, subject to adjustment for dilution. Each share of convertible preferred stock automatically converts into common stock at the then applicable conversion rate for each upon (i) the closing of an underwritten public offering pursuant to which the post-closing enterprise value is at least \$300 million of Company stock at a price of at least \$9.97 per share, (ii) the consent of at least two-thirds of the outstanding preferred stock, or (iii) as to each series of convertible preferred stock, upon the date that less than 100 shares of such series are outstanding.

On August 10, 1999, the Company amended its certificate of incorporation authorizing the Company to issue two classes of shares which are designated as common stock, \$0.001 par value per share, and preferred stock, \$0.001 par value per share. The total number of shares the Company is authorized to issue is 500 million shares of common stock and 10 million shares of preferred stock. At December 31, 2000, the Company had authorized the issuance of one share of Series A preferred stock. At December 31, 2000, one share of Series A preferred stock was issued and outstanding. The holder of Series A preferred stock has the following rights:

Voting--Except as provided in this paragraph, the Series A preferred stockholder is not entitled to notice of any stockholders' meetings and shall not be entitled to vote on any matters with respect to any question upon which holders of common stock or preferred stock have the right to vote, except as may be required by law (and, in any such case, the Series A preferred shall have one vote per share and shall vote together with the common stock as a single class). The holder of Series A preferred is entitled to elect one (1) director of the Company. If there is any vacancy in the office of a director elected by the holder of the Series A preferred, then a director to hold office for the unexpired term of such directorship may be elected by the vote or written consent of the holder of the Series A preferred stock. The provisions of the Article dealing with preferred stockholders rights included in the certificate of incorporation may not be amended without the approval of the holder of the Series A preferred stock.

Dividends--In each calendar year, the holder of the Series A preferred is entitled to receive, when, as and if declared by the Board, non-cumulative dividends in an amount equal to \$0.08 per share (as appropriately adjusted for stock splits, stock dividends, recapitalizations and the like), prior and in preference to the payment of any dividend on the common stock in such calendar year. If, after dividends in the full preferential amounts specified in this Section for the Series A Preferred have been paid or declared and set apart in any calendar year of the Company, the holder of Series A preferred shall have no further rights to receive any further dividends that the Board may declare or pay in that calendar year.

Liquidation--In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the Series A preferred is entitled to receive, prior and in preference to any payment or distribution on any shares of common stock, an amount per share equal to \$1.00 per share of Series A preferred. After payment of such amount, any further amounts

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available for distribution shall be distributed among the holders of common stock and the holders of preferred stock other than Series A preferred, if any, entitled to receive such distributions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Redemption--Upon the earlier to occur of (i) termination of that certain Operating Agreement dated November 26, 1996, as the same may be amended from time to time (the "Operating Agreement"), or (ii) the National Association of REALTORS ("NAR") ceases to own at least 149,778 shares of common stock of the Company, or (iii) the existence and continuance of a material breach by the NAR of that certain Joint Ownership Agreement, dated as of November 26, 1996, among the NAR, NetSelect and NetSelect, L.L.C., or the Trademark License dated as of November 26, 1996, by and between NAR and RealSelect, at any time thereafter the Company may, at the option of the Board, redeem the Series A preferred. The redemption price for each share of Series A preferred shall be \$1.00 per share.

Conversion--Each share of Series A preferred stock shall automatically be converted into one share of common stock upon any sale, transfer, pledge, or other disposition of the share of Series A preferred to any person or entity other than the initial holder of such share of Series A preferred, or any successor by operation of law that functions as a non-profit trade association for REALTORS under Section 501(c)(6) of Internal Revenue Code of 1986, as amended, that owns the REALTOR trademark, or any wholly-owned affiliate of such holder as long as the holder continues to own such affiliate.

Repurchase of Common Stock

In February 1999, the Company repurchased 2,903,865 shares of common stock for \$11.9 million.

During 2000, the Company repurchased 471,007 shares of common stock for approximately \$2.9 million in exchange for the cancellation of notes payable to the Company of equal value.

Sale of Common Stock and Series F Convertible Preferred Stock

In February 1999, the Company closed a private equity offering to real estate brokers under its Broker Gold program. In the aggregate, the Company sold 94,248 shares of Series F convertible preferred stock and 628,760 shares of common stock for approximately \$3.5 million. The Company recorded the \$6.0 million difference between the deemed fair value of the stock for accounting purposes and the price paid by the brokers as deferred compensation, which is being amortized ratably over the two-year term of the Broker Gold agreement, resulting in a non-cash charge of \$2.0 million for the year ended December 31, 1999. Under the terms of the Broker Gold agreement, brokers provide the Company with the right to display their property listings on an exclusive basis.

In March 2000 and May 2000, in connection with acquisitions of WyldFyre Technologies, Inc. and Top Producer Systems Inc., the Company issued 1,062,964 shares of the Company's common stock (Note 4).

In March 2000, in connection with a marketing agreement, the Company issued 1,085,271 shares of the Company's common stock to Budget Group, Inc. The

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Company recorded the \$70 million difference between the fair value of the stock and the price paid by the Budget Group as deferred stock charges, which is being amortized ratably over the ten-year term of the marketing agreement (Note 20).

In April 2000, in connection with a marketing and distribution agreement, the Company issued 3,894,343 shares of the Company's common stock to AOL (Note 20).

The Company recognized \$21.9 million and \$2.8 million in stock-based charges in connection with the issuance of common stock for the years ended December 31, 2000 and 1999, respectively. There were no stock-based charges for 1998.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

16. NET LOSS PER SHARE:

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

| | Year Ended December 31, | | |
|--|-------------------------|------------|--------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| | (Restated) | | |
| Historical presentation numerator: | | | |
| Net loss..... | \$(146,053) | \$(93,007) | \$ (3) |
| Accretion of redemption value and dividends on convertible preferred stock..... | -- | (2,299) | -- |
| | ----- | ----- | ----- |
| Net loss applicable to common stockholders... | \$(146,053) | \$(95,306) | \$ (3) |
| | ===== | ===== | ===== |
| Denominator: | | | |
| Weighted average shares..... | 79,758 | 41,142 | 9,173 |
| | ===== | ===== | ===== |
| Basic and diluted net loss per share applicable to common stockholders..... | \$ (1.83) | \$ (2.32) | \$ -- |
| | ===== | ===== | ===== |

The per share computations exclude preferred stock, options and warrants which are anti-dilutive. The number of such shares excluded from the basic and diluted net loss per share computation were 16,107,866, 12,892,571 and 15,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

17. SUPPLEMENTAL CASH FLOW INFORMATION:

During the year ended December 31, 2000:

- . The Company paid \$1.4 million for interest.
- . The Company acquired Top Producer for \$12.1 million in cash and 473,538

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shares of common stock with an estimated fair value of \$12.1 million and assumed net liabilities of \$522,000 in connection with this purchase.

- . The Company issued 589,426 shares of common stock valued at \$34.3 million as part of the WyldFyre acquisition.
- . The Company paid cash of \$15.0 million and assumed an option plan consisting of 135,421 options with an estimated fair value of \$4.5 million and assumed net assets of \$747,220 as part of the The Hessel Group acquisition.
- . The Company issued 1,085,271 shares of common stock in connection with a marketing agreement.
- . The Company issued 3,894,343 shares of common stock in connection with a marketing and distribution agreement.
- . During 2000, the Company repurchased 471,007 shares of common stock for approximately \$2.9 million in exchange for the cancellation of promissory notes to the Company of equal value.
- . The Company received \$10.4 million in equity securities for services.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

During the year ended December 31, 1999:

- . The Company issued shares of RealSelect common stock convertible into 297,620 shares of Company common stock to the NAR in satisfaction of certain obligations under the operating agreement totaling \$1.0 million.
- . The Company issued notes receivable to stockholders for \$12.1 million in connection with exercising stock options and issuing restricted common stock.
- . The Company issued 364,000 shares of common stock valued at \$3.3 million, 844,569 shares of Series H convertible preferred stock valued at \$42.1 million and assumed net assets of \$10.1 million as part of the SpringStreet acquisition.
- . The Company issued 187,500 shares of common stock to the NAR in satisfaction of certain obligations under the operating agreement totaling \$1.3 million.
- . The Company issued 162,500 shares of common stock totaling \$488,000 to an employee for cash of \$250,000 and a note receivable of \$238,000.
- . The Company converted all of the shares of RealSelect held by the NAR into 3,917,265 shares of its common stock.
- . The Company issued 250,000 shares of common stock valued at \$11.2 million, a \$37.5 million promissory note, and assumed \$911,000 net liabilities as part of the Homefair acquisition.
- . The Company funded \$3.0 million of capital expenditures through an equipment lease financing arrangement.

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- . The Company issued 250,000 shares of common stock in satisfaction of the Cendant Litigation.
- . The Company issued 18,604 shares of common stock in exchange for a \$1.0 million investment in a company.
- . The Company paid \$79,000 for interest.

During the year ended December 31, 1998:

- . The Company paid \$1,000 for interest.

18. DEFINED CONTRIBUTION PLAN:

The Company has a savings plan (the "Savings Plan") that qualifies as a defined contribution plan under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating employees may defer a percentage (not to exceed 15%) of their eligible pretax earnings up to the Internal Revenue Service's annual contribution limit. All full-time employees on the payroll of the Company are eligible to participate in the Plan. The Company is not required to contribute to the Savings Plan and has made no contributions since the inception of the Savings Plan.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

19. INCOME TAXES:

As a result of net operating losses, the Company has not recorded a provision for income taxes. The components of the deferred tax assets and related valuation allowance at December 31, 2000 and 1999 are as follows (in thousands):

| | December 31, 2000 | December 31, 1999 |
|---|----------------------|----------------------|
| | ----- | ----- |
| | (Restated) | |
| Deferred tax assets: | | |
| Net operating loss carryforwards..... | \$ 75,636 | \$ 44,571 |
| Equity compensation..... | 19,053 | 5,106 |
| Deferred expenses..... | 10,805 | -- |
| Other..... | 3,594 | 1,723 |
| | ----- | ----- |
| | 109,088 | 51,400 |
| Less: valuation allowance..... | (74,611) | (16,570) |
| | ----- | ----- |
| Net deferred tax assets..... | 34,477 | 34,830 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Amortization of acquired intangible assets..... | (34,477) | (34,830) |
| | ----- | ----- |
| Total gross deferred tax liabilities..... | (34,477) | (34,830) |
| | ----- | ----- |

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Net deferred tax asset (liability)..... \$ -- \$ --
 =====

Based on management's assessment, the Company has placed a valuation allowance against its otherwise recognizable deferred tax assets due to the likelihood that the Company may not generate sufficient taxable income during the carryforward period to utilize the net operating loss carryforwards. The valuation allowance for net deferred taxes was increased by \$58,041 in 2000. The increase was the result of net changes in temporary differences as well as adjustments attributable to acquisitions.

At December 31, 2000 and 1999, the Company had net operating losses for federal income tax purposes of approximately \$190.8 million and \$116.7 million, respectively, which begin to expire in 2007. At December 31, 2000 and 1999, the Company had net operating losses for state income tax purposes of approximately \$100.1 million and \$63.3 million, respectively, which begin to expire in 2001. At December 31, 2000 and 1999, the net operating loss includes approximately \$56.3 million and \$1.0 million related to the exercise of employee stock options and warrants, respectively. Any benefit resulting from the utilization of this portion of the net operating loss will be credited directly to equity.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

20. COMMITMENTS AND CONTINGENCIES:

Operating Leases

The Company leases certain facilities and equipment under noncancellable operating leases with various expiration dates through 2008. The leases generally contain renewal options and payments that may be adjusted for increases in operating expenses and increases in the Consumer Price Index. The company also assumed noncancellable operating leases from NSI in conjunction with the Reorganization. Future minimum lease payments under these operating leases as of December 31, 2000 are as follows (in thousands):

| | |
|--------------------------|----------|
| 2001..... | \$10,522 |
| 2002..... | 8,565 |
| 2003..... | 7,499 |
| 2004..... | 4,819 |
| 2005 and thereafter..... | 12,633 |
| | ----- |
| Total..... | \$44,038 |
| | ===== |

Rental expense for the Company for operating leases was \$7.5 million and \$3.8 million for the years ended December 31, 2000 and 1999, respectively. Total NSI rental expense for operating leases was \$749,000 for the year ended December 31, 1998.

Distribution Agreements

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In connection with the Reorganization, the Company assumed various Internet portal distribution agreements and marketing and listing agreements with real estate franchises. Payments remaining over the next five years for these agreements at December 31, 2000 are as follows (in thousands):

| | |
|--------------------------|----------|
| 2001..... | \$ 7,202 |
| 2002..... | 3,750 |
| 2003..... | 500 |
| 2004..... | -- |
| 2005 and thereafter..... | -- |
| | ----- |
| Total..... | \$11,452 |
| | ===== |

AOL Agreement and Letter of Credit

In April 2000, the Company entered into a five-year marketing and distribution agreement with AOL. In exchange for entering into this agreement, the Company paid AOL \$20.0 million in cash and issued to AOL approximately 3.9 million shares of its common stock. In the agreement, the Company has guaranteed that the 30-day average closing price, related to 60%, 20% and 20% of the shares it 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. As of December 31, 2000, the Company has recorded \$189.8 million in other non-current liabilities, which represents the fair market value of the 3.9 million shares of the Company's 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 and was \$3.9 million in the year ended December 31, 2000. In connection with the guarantee, the Company established a \$90.0 million letter of credit and is required to pledge an amount equal to the unused portion of the letter of credit. As of December 31, 2000, the Company had pledged \$94.7 million in cash equivalents towards this letter of credit which is classified as restricted cash on the balance sheet. This letter of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

credit can be drawn against by AOL 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.

Budget Agreement

In March 2000, the Company issued 1,085,271 shares of its common stock with an estimated fair value of approximately \$70.0 million to Budget Group, Inc., or BGI, in connection with entering into a ten-year strategic alliance agreement that allows the Company to participate in online and offline BGI marketing activities. In this agreement, the Company has guaranteed that the price of the shares issued will be \$64.50 per share on any trading day during

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the six month period after the second anniversary of the agreement. BGI has the right, during this period, to require Homestore, with respect to each share as to which the right is exercised, at Homestore's discretion elects, 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 shares 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.

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. Based on the advice of counsel, 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.

Legal Proceedings

On October 22, 1999, the Company and Cendant Corporation ("Cendant") announced a settlement of the pending litigation between the two companies. As part of the settlement, Cendant received 250,000 shares of the Company's common stock and agreed to take various actions to reaffirm various alliance agreements with the Company. In connection with the issuance of the 250,000 shares, the Company recorded a non-cash charge of \$8.4 million in 1999.

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, or DOJ. The request sought information about the Company's business as it relates to Internet realty sites in the United States, and has responded to that request. Following their review under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 of the Company's acquisition of Move.com, Inc. ("Move.com") and Welcome Wagon International, Inc. ("Welcome Wagon"), collectively referred to as 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 Homestore.com and Cendant. Homestore.com is continuing to cooperate with the DOJ with respect to that investigation.

21. SUBSEQUENT EVENTS:

Acquisitions

In February 2001, the Company completed the acquisitions of Move.com, Inc. and Welcome Wagon International, Inc., or collectively referred to as the Move.com Group from 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

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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 will be accounted for as a purchase, in accordance with generally accepted accounting principles.

In connection with and contingent upon the close 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 million in products to be delivered to agents, brokers and other Cendant real estate franchisees over the next three years.

Stock Plans

In January 2001, in accordance with plan provisions, the number of shares reserved for issuance under the 1999 Stock Incentive Plan and the 1999 Employee Stock Purchase Plan were increased by an additional 3,724,252 and 413,806, shares, respectively.

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 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 connection with this investigation and its outcome cannot be determined.

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 were 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.

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

22. QUARTERLY FINANCIAL DATA (UNAUDITED):

Provided below is the selected unaudited quarterly financial data for 1999 and 2000, with the quarters ended March 31, June 30, September 30 and December 31, 2000 as restated to reflect the adjustments and the early adoption of the accounting pronouncement as described in Note 3.

| | Three months Ended | | | | | | |
|--|--|------------------|-------------------|------------------|------------------|------------------|-------------------|
| | Mar. 31, 1999 | June 30, 1999 | Sept. 30, 1999 | Dec. 31, 1999 | Mar. 31, 2000 | June 30, 2000 | Sept. 30, 2000 |
| | | | | | (Restated) | (Restated) | (Restated) |
| | (in thousands, except per share amounts) | | | | | | |
| Revenues..... | \$ 5,570 | \$ 11,016 | \$ 18,625 | \$ 27,369 | \$ 37,662 | \$ 42,244 | \$ 48,835 |
| Gross profit..... | 2,655 | 6,388 | 12,460 | 19,112 | 26,904 | 28,811 | 32,998 |
| Loss from operations.... | (10,415) | (18,317) | (35,534) | (31,099) | (33,607) | (35,558) | (40,439) |
| Net loss..... | \$(10,486) | \$(18,280) | \$(34,226) | \$(30,015) | \$(29,212) | \$(29,284) | \$(33,946) |
| Net loss applicable to common stockholders.... | \$(10,900) | \$(19,343) | \$(35,048) | \$(30,015) | \$(29,212) | \$(29,284) | \$(33,946) |
| Basic and diluted net loss per share applicable to common stockholders..... | \$ (0.66) | \$ (0.79) | \$ (0.66) | \$ (0.43) | \$ (0.39) | \$ (0.37) | \$ (0.41) |

The following statements provide a reconciliation of the Company's results of operations for the three restated quarters from financial statements previously filed to these restated financial statements.

Quarter Ended March 31, 2000

| | As Reported | Adjustments | Accounting Change | Restated |
|---|-------------|-------------|----------------------|------------|
| | ----- | ----- | ----- | ----- |
| Revenues..... | \$ 38,599 | | \$ (937) | \$ 37,662 |
| Gross profit..... | 27,841 | | (937) | 26,904 |
| Loss from operations..... | (33,607) | | | (33,607) |
| Net loss applicable to common shareholders..... | \$(29,212) | | | \$(29,212) |
| Basic and diluted net loss per share applicable to common stockholders..... | \$ (0.39) | | | \$ (0.39) |

Quarter Ended June 30, 2000

| | As Reported | Adjustments | Accounting Change | Restated |
|--|-------------|-------------|----------------------|----------|
| | ----- | ----- | ----- | ----- |

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| | | | | |
|---|-------------|------------|------------|-------------|
| Revenues..... | \$ 50,152 | \$ (6,143) | \$ (1,765) | \$ 42,244 |
| Gross profit..... | 36,719 | (6,143) | (1,765) | 28,811 |
| Loss from operations..... | (30,986) | (4,572) | | (35,558) |
| Net loss applicable to common shareholders..... | \$ (24,712) | \$ (4,572) | | \$ (29,284) |
| Basic and diluted net loss per share applicable to common stockholders..... | \$ (0.31) | \$ (0.06) | | \$ (0.37) |

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HOMESTORE.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Quarter Ended September 30, 2000

| | As Reported | Adjustments | Accounting Change | Restated |
|---|-------------|-------------|----------------------|-------------|
| | ----- | ----- | ----- | ----- |
| Revenues..... | \$ 62,203 | \$ (11,115) | \$ (2,253) | \$ 48,835 |
| Gross profit..... | 45,878 | (11,115) | (1,765) | 32,998 |
| Loss from operations..... | (32,851) | (7,588) | | (40,439) |
| Net loss applicable to common shareholders..... | \$ (27,058) | \$ (6,888) | | \$ (33,946) |
| Basic and diluted net loss per share applicable to common stockholders..... | \$ (0.33) | \$ (0.08) | | \$ (0.41) |

Quarter Ended December 31, 2000

| | As Reported | Adjustments | Accounting Change | Restated |
|---|-------------|-------------|----------------------|-------------|
| | ----- | ----- | ----- | ----- |
| Revenues..... | \$ 79,013 | \$ (24,137) | \$ (2,295) | \$ 52,581 |
| Gross profit..... | 57,290 | (24,138) | (1,765) | 31,387 |
| Loss from operations..... | (33,074) | (19,424) | | (52,498) |
| Net loss applicable to common shareholders..... | \$ (34,187) | \$ (19,424) | | \$ (53,611) |
| Basic and diluted net loss per share applicable to common stockholders..... | \$ (0.41) | \$ (0.24) | | \$ (0.65) |

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) Consolidated Financial Statements and Supplementary Data: See Index to

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Consolidated Financial Statements at Item 8 on page 19 of this report.

(2) Financial Statement Schedule: See Item 14, "Exhibits" on Form 10-K/A Exhibit Number 99.02.

(b) Reports on Form 8-K

On October 27, 2000, the Company filed a report on Form 8-K with the Securities and Exchange Commission in connection with the proposed acquisition of the Move.com Group.

(c) Exhibits

| Number ----- | Exhibit Title ----- |
|-----------------|---|
| 2.01 | Agreement and Plan of Merger dated December 31, 1998, between NetSelect, Inc. and InfoTouch Corporation.(1) |
| 2.02 | Agreement and Plan of Reorganization dated June 20, 1998, among NetSelect, Inc., National New Homes Co., Inc., MultiSearch Solutions, Inc., Fred White, and R. Fred White III.(1) |
| 2.03 | Exchange Agreement dated March 31, 1998, among NetSelect, Inc., The Enterprise of America, Ltd., and Roger Scommegna.(1) |
| 2.04 | Agreement and Plan of Reorganization/Merger between NetSelect, Inc. and SpringStreet.com.(1) |
| 2.05 | Stock Purchase Agreement dated as of October 12, 1999 by and among Homestore.com, a Delaware Corporation, The Homebuyer's Fair, Inc., an Arizona corporation ("HBF"), the current shareholders of HBF as of the date thereof and certain persons who will become shareholders of HBF prior to the Closing, and Central Newspapers, Inc., an Indiana corporation ("CNI"), as Shareholder Agent.(2) |
| 2.06 | Stock Purchase Agreement dated as of October 12, 1999 by and among Homestore.com, Inc., FAS-Hotline, Inc., an Arizona corporation ("FAS"), the shareholders of FAS, and CNI, as Shareholder Agent.(2) |
| 2.07 | Agreement and Plan of Reorganization, by and among Homestore.com, Inc., Metal Acquisition Corp., WW Acquisition Corp., Move.com, Inc., Welcome Wagon International, Inc., Cendant Membership Services Holdings, Inc. and Cendant Corporation, dated as of October 26, 2000.(5) |
| 3.01 | Registrant's Amended and Restated Certificate of Incorporation.(1) |
| 3.02 | Registrant's Bylaws.(1) |
| 3.05.1 | RealSelect, Inc.'s Certificate of Incorporation dated October 25, 1996.(1) |
| 3.05.2 | RealSelect, Inc.'s Certificate of Amendment to Certificate of Incorporation dated November 25, 1996.(1) |
| 3.06 | RealSelect, Inc.'s Bylaws dated November 26, 1996.(1) |
| 3.07 | Amended By-Laws of RealSelect, Inc.(1) |
| 4.01 | Form of Specimen Certificate for Registrant's common stock.(1) |
| 4.02.1 | NetSelect, Inc. Second Amended and Restated Stockholders Agreement dated January 28, 1999.(1) |
| 4.02.2 | Amendment No. 1 to NetSelect, Inc. Second Amended and Restated Stockholders Agreement dated January 28, 1999.(1) |
| 10.01 | Form of Indemnity Agreement between Registrant and each of its directors and executive officers.(1) |
| 10.02.1 | Operating Agreement dated November 26, 1996, between REALTORS(R) Information Network, Inc. and RealSelect, Inc.(1) |

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| Number ----- | Exhibit Title ----- |
|-----------------|---|
| 10.02.2 | First Amendment to Operating Agreement between REALTORS(R) Information Network, Inc. and RealSelect, Inc. dated December 27, 1996.(1) |
| 10.02.3 | Amendment No. 2 to Operating Agreement between REALTORS(R) Information Network, Inc. and RealSelect, Inc. dated May 28, 1999.(1) |
| 10.03 | Master Agreement dated November 26, 1996, among NetSelect, Inc., NetSelect, L.L.C., RealSelect, Inc., CDW Internet, L.L.C., Whitney Equity Partners, L.P., Allen & Co., InfoTouch Corporation, and REALTORS(R) Information Network, Inc.(1) |
| 10.04 | Joint Ownership Agreement dated November 26, 1996, among the National Association of REALTORS(R), NetSelect, L.L.C., and NetSelect, Inc.(1) |
| 10.05 | Trademark License dated November 26, 1996, between the National Association of REALTORS(R) and RealSelect, Inc.(1) |
| 10.06 | Stock and Interest Purchase Agreement (NetSelect Series A and B Preferred) dated November 26, 1996, among NetSelect, Inc., NetSelect L.L.C., and InfoTouch Corporation.(1) |
| 10.07 | NetSelect, Inc. 1996 Stock Incentive Plan.(1) |
| 10.08 | NetSelect, Inc. 1999 Equity Incentive Plan.(1) |
| 10.09 | Homestore.com, Inc. 1999 Stock Incentive Plan.(1) |
| 10.10 | Homestore.com, Inc. 1999 Employee Stock Purchase Plan.(1) |
| 10.11 | InfoTouch Corporation 1994 Stock Incentive Plan.(1) |
| 10.12 | Move.com, Inc. Stock Incentive Plan.(6) |
| 10.13 | Cendant Corporation Move.com Group 1999 Stock Option Plan as assumed by Cendant Corporation from Move.com, Inc. and amended and restated effective as of March 21, 2000.(6) |
| 10.14 | 1997 Stock Initiative Plan of Cendant Corporation as amended and restated through October 14, 1998.(6) |
| 10.15 | Amendment to Amended and Restated 1997 Stock Incentive Plan of Cendant Corporation dated March 27, 2000.(6) |
| 10.16 | Amendment to Amended and Restated 1997 Stock Incentive Plan of Cendant Corporation dated March 28, 2000.(6) |
| 10.17 | Employment Agreement between NetSelect, Inc. and Stuart H. Wolff, Ph.D.(1) |
| 10.18 | Employment Agreement between NetSelect, Inc. and Richard Janssen.(1) |
| 10.19 | Employment Agreement between NetSelect, Inc. and Michael A. Buckman.(1) |
| 10.20 | Office Lease dated September 18, 1998 between RealSelect, Inc. and WHLNF Real Estate Limited Partnership for 225 West Hillcrest, Suite 100, Thousand Oaks, California.(1) |
| 10.21 | First Amendment to Office Lease dated March 31, 1999 between RealSelect, Inc. and WHLNF Real Estate Limited Partnership for 225 West Hillcrest, Suite 100, Thousand Oaks, California(1) |
| 10.22 | 401(k) Plan.(1) |
| 10.23 | Employment Agreement between NetSelect, Inc. and Peter Tafeen.(1) |
| 10.24 | Amendment to Employment Contract between NetSelect, Inc. and Peter Tafeen.(1) |
| 10.25 | Employment Agreement between NetSelect, Inc. and John M. Giesecke.(1) |
| 10.26 | Employment Agreement between NetSelect, Inc. and David Rosenblatt.(1) |
| 10.27 | Agreement dated August 21, 1998 among RealSelect, RIN, the NAR, NetSelect and NetSelect L.L.C.(1) |

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- 10.28 Agreement among NetSelect, Inc., RealSelect, Inc., RIN and NAR dated May 28, 1999.(1)
- 10.29 Second Amended and Restated Interactive Marketing Agreement among RealSelect, Inc., NetSelect, Inc. and America Online, Inc. dated April 8, 1998.(1)(3)
- 10.30 Letter Agreement regarding rental site acquisition among the NAR, RIN and RealSelect, Inc. dated May 17, 1999.(1)(3)
- 10.31 Employment Agreement between Homestore.com, Inc. and M. Jeffrey Charney.(1)
- 10.32 Employment Agreement between Homestore.com, Inc. and Catherine Kwong Giffen.(1)

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| Number | Exhibit Title |
|--------|--|
| ----- | ----- |
| 10.33 | Standard Office Lease Form, Westlake North Business Park, dated March 7, 2000, between Westlake North Associates, LLC, and Homestore.com, Inc. for 30700 Russell Ranch Road, Westlake Village, California* |
| 21.01 | Subsidiaries of Registrant.* |
| 23.01 | Consent of PricewaterhouseCoopers LLP, independent accountants.** |
| 23.02 | Report on Independent Accountants on Financial Statement Schedules.** |
| 99.01 | Information Incorporated by Reference Concerning Recent Sales of Unregistered Securities.* |
| 99.02 | Schedule II--Valuation and Qualifying Accounts.** |

* Filed with the original Form 10-K

** Filed herewith.

- (1) Incorporated by reference to exhibits previously filed with the Company's Registrant Statement on Form S-1 (File No. 333-79689).
- (2) Incorporated by reference to exhibits previously filed with the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on December 7, 1999.
- (3) Confidential treatment has been granted with respect to certain information in these exhibits pursuant to a previous confidential treatment request.
- (4) Incorporated by reference to exhibits previously filed with the Company's Registration Statement on Form S-1 (File No. 333-94467).
- (5) Incorporated by reference herein to the Appendix to the Definitive Proxy Statement filed with the Securities and Exchange Commission on November 29, 2000.
- (6) Incorporated by reference herein to the Company's Form S-8 filed with the Securities and Exchange Commission on February 16, 2001.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

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

Date: March 11, 2002

Homestore.com, Inc.

/s/ W. Michael Long
 By: _____
 W. Michael Long
 Chief Executive Officer

/s/ Lewis R. Belote, III
 By: _____
 Lewis R. Belote, III
 Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature ----- | Title ----- | Date ---- |
|---|---|----------------|
| Principal Executive Officer: | | |
| <u> /s/ W. Michael Long</u> W. Michael Long | Chief Executive Officer and Director | March 11, 2002 |
| Principal Financial Officer and Principal Accounting Officer: | | |
| <u> /s/ Lewis R. Belote, III</u> Lewis R. Belote, III | Chief Financial Officer | March 11, 2002 |
| Additional Directors: | | |
| <u> /s/ Terrence M. McDermott</u> Terrence M. McDermott | Director | March 11, 2002 |
| <u> /s/ L. John Doerr</u> L. John Doerr | Director | March 11, 2002 |
| <u> /s/ Joe F. Hanauer</u> Joe F. Hanauer | Director | March 11, 2002 |
| <u> /s/ William E. Kelvie</u> William E. Kelvie | Director | March 11, 2002 |

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| Signature ----- | Title ----- | Date ---- |
|----------------------------|----------------|----------------|
| /s/ Kenneth K. Klein | Director | March 11, 2002 |
| ----- Kenneth K. Klein | | |
| /s/ Barbara Alexander | Director | March 11, 2002 |
| ----- Barbara Alexander | | |