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

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

FORM 10-Q/A

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

For the Quarter Ended September 30, 2001

OR

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

For the Quarter Ended September 30, 2001

Commission File Number 000-26659

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	95-4438337 (I.R.S. Employer Identification Number)
30700 Russell Ranch Road Westlake Village, California (Address of Principal Executive Office)	91362 (Zip Code)

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

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

Yes [X] No [_]

At November 1, 2001 the registrant had 117,463,297 shares of its common stock outstanding.

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THIS 10-Q/A IS BEING FILED FOR THE PURPOSE OF AMENDING AND RESTATING ITEMS 1 AND 2 OF PART I OF FORM 10-Q TO REFLECT THE RESTATEMENT OF OUR CONSOLIDATED FINANCIALS AS OF AND FOR THE PERIODS ENDED SEPTEMBER 30, 2000 AND 2001. WE HAVE MADE NO FURTHER CHANGES TO THE PREVIOUSLY FILED FORM 10-Q OTHER THAN TO THE BALANCE SHEET AS OF DECEMBER 31, 2000, WHICH WAS PREVIOUSLY RESTATED IN THE ANNUAL REPORT ON FORM 10-K/A FILED ON MARCH 12, 2001. ALL INFORMATION IN THIS FORM 10-Q/A IS AS OF SEPTEMBER 30, 2001 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE AFOREMENTIONED RESTATEMENT AND THE DESCRIPTION OF LITIGATION IN NOTE 14 TO THE CONSOLIDATED FINANCIAL STATEMENTS.

PART I--FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HOMESTORE.COM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	September 2001 (Unaudite (Restated
Current assets:	
Cash and cash equivalents..	$ 57,5
Short-term investments...	45,2
Marketable equity securities...	2,8
Accounts receivable, net...	54,6
Current portion of prepaid distribution expense..............................	51,0
Other current assets...	27,2
Total current assets...	238,6

Prepaid distribution expense, net of current portion	124,4
Property and equipment, net	97,8
Intangible assets, net	1,065,5
Restricted cash	103,4
Other long-term assets	22,1
Total assets	$1,652,1

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	$ 37,2
Accrued liabilities	98,2
Deferred revenue from related parties	47,7
Deferred revenue	66,0
Total current liabilities	249,3
Distribution obligation	200,9
Other	2,3
Total liabilities	452,6
Commitments and contingencies (Note 13)	
Stockholders' equity:	
Convertible preferred stock	
Common stock	1
Additional paid-in capital	1,980,6
Treasury stock	(18,0
Notes receivable from stockholders	(4,0
Deferred stock-based charges	(95,3
Accumulated other comprehensive loss	(3,0
Accumulated deficit	(660,7
Total stockholders' equity	1,199,5
Total liabilities and stockholders' equity	$1,652,1

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

HOMESTORE.COM, INC.

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

	Three Months Ended September 30,	
	2001	2000

	(Restated)	(Restated)
Revenues (including non-cash equity charges, see note 10).........	$ 76,588	$ 48,835
Revenues from related parties....................................	9,799	-
Total revenues...	86,387	48,835
Cost of revenues (including non-cash equity charges, see note 10)...	31,801	15,837
Gross profit...	54,586	32,998
Operating expenses:		
Sales and marketing (including non-cash equity charges, see Note 10)..	72,655	35,434
Product development (including non-cash equity charges, see note 10)..	9,646	4,458
General and administrative (including non-cash equity charges, see note 10)....................................	32,976	17,358
Amortization of intangible assets............................	57,581	12,139
In-process research and development..........................	--	4,048
Acquisition-related and other charges........................	--	--
Total operating expenses...............................	172,858	73,437
Loss from operations...	(118,272)	(40,439)
Interest income, net...	2,025	6,293
Other expense, net...	(22,078)	200
Net loss...	$ (138,325)	$ (33,946)
Basic and diluted net loss per share.............................	$ (1.25)	$ (.41)
Shares used to calculate basic and diluted net loss per share.....	110,476	82,065

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

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HOMESTORE.COM, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Cash flows from operating activities:
Net loss..
Adjustments to reconcile net loss to net cash (used in) operating activities:
Depreciation..
Amortization of intangible assets...
Accretion of distribution obligation..

Provision for doubtful accounts..
In-process research and development..
Stock-based charges..
Write-down of investments..
Other non-cash items..
Changes in operating assets and liabilities, net of acquisitions:
Accounts receivable..
Prepaid distribution expense..
Other assets..
Accounts payable and accrued liabilities..
Deferred revenue from related parties..
Deferred revenue..

Net cash (used in) operating activities..

Cash flows from investing activities:
Purchases of property and equipment..
Purchases of short-term investments..
Maturities of short-term investments..
Purchases of cost and equity investments..
Acquisitions, net of cash acquired..

Net cash used in investing activities..

Cash flows from financing activities:
Proceeds from payment of stockholders' notes..
Proceeds from exercise of stock options, warrants and share issuances under employee stock purchase plan..
Net proceeds from issuance of common and preferred stock..
Transfer to restricted cash..
Repayment of notes payable..
Issuance of notes receivable..
Subsidiary equity transactions..

Net cash provided by financing activities..

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

Cash and cash equivalents, end of period..

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

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS:

Homestore.com, Inc. ("Homestore" or the "Company") has created the leading online marketplace for home and real estate-related information and associated 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. Through our subsidiary, iPlace, Inc., ("iPlace"), we are the leading provider of online credit and neighborhood information to consumers and real estate professionals. 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, apartment managers and agents. The Company also has distribution agreements with a number of leading Internet portal and search engine web sites, including America Online, Inc. ("AOL").

2. BASIS OF PRESENTATION:

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

Since inception, the Company has incurred losses from operations. As of September 30, 2001, the Company had an accumulated deficit of $660.8 million, cash and cash equivalents of $57.6 million and short-term investments of $45.3 million. The Company has no material financial commitments other than those under operating lease agreements and distribution and marketing agreements. The Company currently anticipates that its existing cash and cash equivalents, and any cash generated from operations will be sufficient to fund the Company's operating activities, capital expenditures and other obligations through at least the next 12 months. However, in the longer term, the Company faces significant risks associated with the successful execution of its business strategy and may need to raise additional capital in order to fund more rapid expansion, to expand its marketing activities, to develop new or enhance existing services or products, to satisfy our obligation to AOL and to respond to competitive pressures or to acquire complementary services, businesses or technologies. If the Company is not successful in generating sufficient cash flow from operations, the Company may need to raise additional capital through public or private financing, strategic relationships or other arrangements. This additional capital, if needed, might not be available on terms acceptable to the Company, or at all. The failure to raise sufficient capital when needed could have a material adverse effect on the Company's business, results of operations and financial condition. If additional capital were raised through the issuance of equity securities, the percentage of the Company's stock owned by the Company's then-current stockholders would be reduced. Furthermore, such equity securities might have rights, preferences or privileges senior to those of the Company's common and preferred stock. In addition the Company's liquidity could be adversely impacted by the litigation referred to in Note 14.

3. RECENT ACCOUNTING DEVELOPMENTS:

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("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 adoption of SFAS No. 133 in the first quarter of 2001 did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS Nos. 141 and 142, "Business Combinations" and "Goodwill and Other Intangible Assets", respectively. SFAS No. 141 replaces Accounting Principles Board ("APB") Opinion No. 16 "Business Combinations." It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS No. 142 changes the accounting for goodwill and other intangible assets with indefinite useful lives ("goodwill") from an amortization method to an impairment-only approach. Under SFAS No. 142, goodwill will be tested upon implementation of the standard, annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS No. 141 and SFAS No. 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of SFAS No. 142 on January 1, 2002, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS No. 141 will be reclassified to goodwill. The Company will be required to implement SFAS No. 142 in the first quarter of fiscal 2002. In connection with the adoption of SFAS No. 142, the Company will be required to perform a transitional goodwill impairment assessment. The Company is in process of evaluating the impact of adopting SFAS No. 142.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires entities to record the fair value of a liability for an asset retirement obligation in the period in which the obligation is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143, is effective for fiscal years beginning after June 15, 2002. The company does not have asset retirement obligations and therefore believes there will be no impact upon adoption of SFAS No. 143.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supersede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and portions of APB Opinion No. 30, "Reporting the Results of Operations." SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value and carrying amount. SFAS No. 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required. The Company is in process of evaluating the impact of adopting SFAS No. 144.

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

4. RESTATEMENT AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT:

On December 21, 2001, the Company announced that the Audit Committee of its Board of Directors was conducting an inquiry of certain of the Company's accounting practices and that the results of the inquiry to date determined that certain of its financial statements would require restatement. The Audit Committee retained independent counsel and independent accountants to assist in connection with the inquiry. On January 2, 2002, the Company concluded, based on preliminary findings of the inquiry, that its financial statements for each of the three quarters ended, September 30, 2001 would be restated. On February 13, 2002, the Company concluded, based upon preliminary findings of the inquiry, that its financial statements, as of, and for the year ended December 31, 2000, including certain interim periods, would be restated. On March 11, 2002, the Audit Committee concluded its inquiry. The results of the inquiry determined that for the three-month and nine-month periods ended September 30, 2001, certain transactions resulting in revenue recognition of $17.1 million and $81.6 million, respectively, had been improperly recorded as independent cash transactions, when, in fact, they were reciprocal exchanges that should have been evaluated as barter transactions. The Company determined that there was insufficient support to establish the fair value of these barter exchanges and thus the related revenue has been reversed. The results of the inquiry also determined that in the three-month and nine-month periods ended September 30, 2000, revenue of $11.1 million and $17.3 million, respectively, had been improperly recorded on this basis. Although the ultimate impact of these adjustments will be to reduce both revenues and expenses, because some of the transactions take place over several accounting periods, and because certain payments for goods and services by the Company were capitalized when initially recorded, operating results for the years 2000, 2001 and future periods are impacted. The effect of reversing the revenue associated with certain of these transactions required offsetting adjustments to various asset and liability accounts, including: accounts receivable, property and equipment, other assets, accrued liabilities and deferred revenue. In addition, the results of the inquiry determined that for the three-month and nine-month periods ended September 30, 2001, revenue of $11.4 million and $37.4 million, respectively was improperly recognized on the sale of certain software

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HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

products and services. The transactions did not meet the revenue recognition requirements of SOP 97-2 due to the existence of other performance commitments and, accordingly, the revenue should have been deferred through September 30, 2001.

The restated financial statements also include the effects of the Company's early adoption of EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" which was issued in February 2002. This consensus requires companies to report certain consideration given by a vendor to a customer as a reduction in revenue. Upon adoption, companies are required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement display requirements of the consensus. The Company has adopted this consensus and the effect on the three-month and nine-months periods ended September 30, 2001 was to reduce previously reported revenue and expense by $1.2 million and $4.0 million, respectively, with no effect on net loss or net loss per share. The effect on the three-month and nine-month periods ended September 30, 2000 was to reduce previously reported revenue and expense by $2.3 million and $5.0 million, respectively

As a result of these items, for the three-month and nine-month periods ended September 30, 2001, respectively, the Company has reduced its previously reported revenue by $29.7 million and $123.0 million; increased its net loss from $106.6 million to $138.3 million and $245.8 million to $359.0 million; and increased its net loss per share of $(.96) to $(1.25) and $(2.35) to $(3.44). For the three-month and nine-month periods ended September 30, 2000, respectively, the Company has reduced its previously reported revenue by $13.4 million and $22.2 million; increased its net loss from $27.1 million to $33.9 million and $81.0 million to $92.4 million; and increased its net loss per share of $(.33) to $(.41) and $(1.03) to $(1.17).

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.

CONSOLIDATED BALANCE SHEET
(in thousands)

	Septemb	
	As Reported	Adj
ASSETS		
Current assets:		
Cash and cash equivalents..	$ 70,976	$
Short-term investments...	45,270	
Marketable equity securities.....................................	2,824	
Accounts receivable, net...	63,383	
Current portion of prepaid distribution expense..................	51,086	
Other current assets...	63,221	
Total current assets..	296,760	
Prepaid distribution expense, net of current portion...................	124,476	
Property and equipment, net..	112,985	

Intangible assets, net	1,081,830	
Restricted cash	90,000	
Other long-term assets	48,180	
Total assets	$ 1,754,231	$

LIABILITIES, AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 37,178	$
Accrued liabilities	87,458	
Deferred revenue from related parties	--	
Deferred revenue	82,721	
Total current liabilities	207,357	
Distribution obligation	200,957	
Other	2,342	
Total Liabilities	410,656	
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock	112	
Additional paid-in capital	1,980,674	
Treasury stock	(18,062)	
Notes receivable from stockholders	(4,090)	
Deferred stock-based charges	(95,326)	
Accumulated other comprehensive loss	(3,004)	
Accumulated deficit	(516,729)	
Total stockholders' equity	1,343,575	
Total liabilities and stockholders' equity	$ 1,754,231	$

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Three Months	
	As Reported	Adju
Revenues	$ 116,135	$ (3
Revenues from related parties	--	

Total revenues	116,135	(2
Cost of revenues	31,736	
Gross profit	84,399	(2
Operating expenses:		
Sales and marketing	67,453	
Product development	9,896	
General and administrative	36,055	(
Amortization of intangible assets	57,606	
Total operating expenses	171,010	
Loss from operations	(86,611)	(3
Interest income, net	2,025	
Other expense, net	(22,018)	
Net loss applicable to common stockholders	$(106,604)	$ (3
Basic and diluted net loss per share	$ (.96)	$
Shares used to calculate basic and diluted net loss per share	110,476	11

	Nine Months	
	As Reported	Adjus
Revenues	$ 350,909	$(139
Revenues from related parties	--	20
Total revenues	350,909	(118
Cost of revenues	93,782	
Gross profit	257,127	(119
Operating expenses:		
Sales and marketing	199,363	(2
Product development	24,310	
General and administrative	89,677	(3
Amortization of intangible assets	146,050	
Acquisition-related and other charges	15,632	
Total operating expenses	475,032	(7
Loss from operations	(217,905)	(112
Interest income, net	10,244	
Other expense, net	(38,166)	
Net loss applicable to common stockholders	$(245,827)	$(113
Basic and diluted net loss per share	$ (2.35)	$ (
Shares used to calculate basic and diluted net loss per share	104,422	104

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Three Months End	
	As Reported	Adjustme
Revenues	$ 62,203	$(11,1
Cost of revenues	16,325	
Gross profit	45,878	(11,1
Operating expenses:		
Sales and marketing	40,614	(3,4
Product development	4,458	
General and administrative	17,481	(1
Amortization of intangible assets	12,128	
In-process research and development	4,048	
Total operating expenses	78,729	(3,5
Loss from operations	(32,851)	(7,5
Interest income, net	6,293	
Other expense, net	(500)	7
Net loss applicable to common stockholders	$(27,058)	$ (6,8
Basic and diluted net loss per share	$ (.33)	$ (.
Shares used to calculate basic and diluted net loss per share	82,065	82,0

	Nine Months	
	As Reported	Adjus
Revenues	$ 150,954	$ (1
Cost of revenues	40,516	
Gross profit	110,438	(1

Operating expenses:		
Sales and marketing	120,239	(
Product development	10,222	
General and administrative	41,918	
Amortization of intangible assets	31,455	
In-process research and development	4,048	
Acquisition-related and other charges	--	
Total operating expenses	207,882	(
Loss from operations	(97,444)	(1
Interest income, net	17,347	
Other expense, net	(885)	
Net loss applicable to common stockholders	$ (80,982)	$ (1
Basic and diluted net loss per share	$ (1.03)	$
Shares used to calculate basic and diluted net loss per share	78,769	7

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HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Mont
	As Reported
Cash flows from operating activities:	
Net loss	$(245,827)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	19,498
Amortization of intangible assets	146,050
Accretion of distribution obligation	11,109
Provision for doubtful accounts	10,430
In-process research and development	--
Stock-based charges	60,184
Write-down of investments	30,743
Other non-cash items	(12,974)
Changes in operating assets and liabilities, net of acquisitions:	
Accounts receivable	(11,646)
Prepaid distribution expense	6,993
Other assets	(41,847)
Accounts payable and accrued liabilities	24,926
Deferred revenue from related parties	--
Deferred revenue	20,970

Net cash used in operating activities	18,609
Cash flows from investing activities:	
Purchases of property and equipment	(66,277)
Purchases of short-term investments	(85,925)
Maturities of short-term investments	115,485
Purchases of cost and equity investments	--
Acquisitions, net of cash acquired	(145,201)
Net cash used in investing activities	(181,918)
Cash flows from financing activities:	
Proceeds from payment of stockholders' notes	2,341
Proceeds from exercise of stock options, warrants and share issuances under employee stock purchase plan	56,217
Net proceeds from issuance of common and preferred stock	--
Transfer to restricted cash	--
Repayment of notes payable	(481)
Issuance of notes receivable	(4,777)
Subsidiary equity transactions	--
Net cash provided by financing activities	53,300
Change in cash and cash equivalents	(110,009)
Cash and cash equivalents, beginning of period	180,985
Cash and cash equivalents, end of period	$ 70,976

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Mont As Reported
Cash flows from operating activities:	
Net loss	$ (80,982)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	3,223
Amortization of intangible assets	31,455
Accretion of distribution obligation	--
Provision for doubtful accounts	2,245
In-process research and development	4,048
Stock-based charges	33,271
Write-down of investments	--
Other non-cash items	(798)
Changes in operating assets and liabilities, net of acquisitions:	

Accounts receivable	(26,293)
Prepaid distribution expense	(21,150)
Other assets	(7,064)
Accounts payable and accrued liabilities	18,775
Deferred revenue	5,375
Net cash used in operating activities	(37,895)
Cash flows from investing activities:	
Purchases of property and equipment	(28,144)
Purchases of short-term investments	(202,037)
Maturities of short-term investments	87,000
Purchases of cost and equity investments	(30,897)
Acquisitions, net of cash acquired	(39,465)
Net cash used in investing activities	(213,543)
Cash flows from financing activities:	
Proceeds from payment of stockholders' notes	606
Proceeds from exercise of stock options, warrants and share issuances under employee stock purchase plan	19,313
Net proceeds from issuance of common and preferred stock	428,903
Transfer to restricted cash	(90,000)
Repayment of notes payable	(38,575)
Issuance of notes receivable	(1,651)
Subsidiary equity transactions	10,850
Net cash provided by financing activities	329,446
Change in cash and cash equivalents	78,008
Cash and cash equivalents, beginning of period	90,382
Cash and cash equivalents, end of period	$ 168,390

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

5. STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS:

The increase in stockholders' equity for the nine months ended September 30, 2001 is primarily the result of the acquisitions of Move.com, Inc. and Welcome Wagon International, Inc., (collectively referred to as the "Move.com Group"), in which the Company issued approximately 21.4 million shares of its common stock and assumed approximately 3.2 million outstanding stock options of Move.com, Inc. The acquisition resulted in an increase to additional paid-in capital of approximately $780.0 million. Adding to the increase in stockholders' equity for the nine months ended September 30, 2001 was the acquisition of iPlace.com, Inc. ("iPlace") in which the Company issued approximately 3.5 million shares of its common stock resulting in an increase to additional paid-in-capital of approximately $87.8 million.

The components of comprehensive loss for each of the periods presented are as follows (in thousands):

	Three Months Ended September 30,		Nine Se
	2001	2000	2001
	(Restated)	(Restated)	(Restated
Net loss....................................	$ (138,325)	$ (33,946)	$ (359,0
Unrealized losses on marketable securities....	(470)	(2,318)	(3,0
Foreign currency translation.................	(278)	(345)	
Comprehensive loss...........................	$ (139,073)	$ (36,609)	$ (361,9

In January 2001, the Company issued 600,000 shares of its common stock, in connection with a marketing agreement providing for a multi-faceted marketing program, the fair market value of which was $11.1 million on the date of issuance of the shares. The $11.1 million was recorded as deferred stock-based charges and is being amortized over the five-year term of the agreement. The counterparty to the marketing agreement also entered into a marketing and web services agreement with the Company for $15.0 million in cash which is payable over the five-year term of the agreement. The Company is recording these transactions on a net basis. The deferred stock-based charge is adjusted quarterly for changes in the Company's stock price. The net unamortized deferred balance for this agreement at September 30, 2001 is $6.3 million.

6. ACQUISITION-RELATED AND OTHER CHARGES:

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

In the second quarter of 2001, the Company incurred a charge of $8.5 million related to the dissolution of one of the Company's subsidiaries. Included in these charges were severance, facilities shut-down costs and other dissolution costs. No accruals were made for expenses incurred beyond June 30, 2001.

7. IMPAIRMENT OF INVESTMENTS:

During the three and nine months ended September 30, 2001, the Company recorded a charge of approximately $19.2 million and $30.3 million, respectively, based on the impairment of the Company's portfolio of investments. The impairment of these investments to their net realizable values was based on a review of the companies' financial conditions, cash flow projections, operating performances and sustained downturn in financial markets.

8. ACQUISITIONS:

In January 2001, the Company acquired certain assets and licenses and assumed certain liabilities from Internet Pictures Corporation ("iPIX") for $8.1. million in cash and a note in the amount of $2.25 million. The acquisition has been accounted for as a purchase. The acquisition cost has been allocated to the assets acquired based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately $16.3 million has been allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives of the assets ranging

from three to five years. The results of operations for iPIX for periods prior to the acquisition were not material to the Company and accordingly, pro forma results of operations have not been presented.

In January 2001, the Company acquired certain assets and assumed certain liabilities from Computers for Tracts, Inc. ("CFT") for approximately $4.5 million in cash and 162,850 shares of the Company's common stock valued at $5.0 million. The acquisition has been accounted for as a purchase. The acquisition cost has been allocated to the assets acquired based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately $8.9 million has been allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives ranging from three to five years. The results of operations for CFT for periods prior to the acquisition were not material to the Company and accordingly, pro forma results of operations have not been presented.

In February 2001, the Company acquired all the outstanding shares of HomeWrite, Inc. ("HomeWrite") in exchange for 196,549 shares of the Company's common stock valued at $5.6 million and assumed the HomeWrite stock option plan consisting of 196,200 outstanding stock options with an estimated fair value of $4.5 million. The acquisition has been accounted for as a purchase. The acquisition cost has been allocated to the assets acquired based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately $11.8 million has been allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives of the assets ranging from three to five years. The results of operations for HomeWrite for periods prior to the acquisition were not material to the Company and accordingly, pro forma results of operations have not been presented.

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

In May 2001, the Company acquired certain assets and assumed certain liabilities from Homestyles Publishing and Marketing, Inc. ("Homestyles") for approximately $14.5 million in cash. The acquisition has been accounted for as a purchase. The acquisition cost has been preliminarily allocated to the assets acquired based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately $15.2 million has been preliminarily allocated to goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives of the assets ranging from three to five years. The results of operations for Homestyles for periods prior to the acquisition were not material to the Company and accordingly, pro forma results of operations have not been presented.

On August 24, 2001, the Company acquired all the outstanding shares of iPlace in exchange for approximately 3.5 million shares of the Company's common stock valued at $67.9 million, $73.0 million in cash and assumed 1.1 million outstanding stock options with an estimated fair value of $19.8 million. The acquisition has been accounted for as a purchase and the results of operations have been included in the Company's consolidated financial statements since the acquisition. The acquisition cost has been preliminarily allocated to the assets acquired based on their respective fair values. The excess of purchase consideration over net tangible assets acquired of approximately $167.2 million has been allocated to goodwill and other identifiable intangible assets. In accordance with SFAS No. 141, the Company is not amortizing goodwill for this acquisition. Other identifiable intangible assets are being amortized on a straight-line basis over the estimated useful lives of the assets ranging from three to seven years. See note 9 for pro forma financial information.

9. RELATED PARTY TRANSACTIONS:

In February 2001, the Company acquired all the outstanding shares of the Move.com Group from Cendant Corporation ("Cendant") valued at $757.3 million. In connection with the acquisition, the Company issued an aggregate of 21.4 million shares of the Company's common stock in exchange for all the outstanding shares of capital stock of the Move.com Group and assumed approximately 3.2 million outstanding stock options of Move.com, Inc. Cendant is restricted in its ability to sell the Homestore.com shares it received in the acquisition and has agreed to vote such shares on all corporate matters in proportion to the voting decisions of all other stockholders. In addition, Cendant has agreed to a ten-year standstill agreement that, under most conditions, prohibits Cendant from acquiring additional Homestore.com shares. The acquisition has been accounted for as a purchase. The acquisition cost has been preliminarily allocated to assets acquired and liabilities assumed based on estimates of their respective fair values. The excess of purchase consideration over net tangible assets acquired of $795.4 million has been allocated to

goodwill and other identifiable intangible assets and is being amortized on a straight-line basis over estimated lives of the assets ranging from two to fifteen years.

In connection with and contingent upon the closing of the acquisition of the Move.com Group, the Company entered into a series of commercial agreements for the sale of various technology and subscription-based products to Real Estate Technology Trust ("RETT"), an independent trust established in 1996 to provide technology services and products to Cendant's real estate franchisees that is considered a related party of the Company. Under the commercial agreements, RETT committed to purchase $75.0 million in products to be delivered to agents, brokers and other Cendant real estate franchisees over the next three years. Revenues from RETT and Cendant in the three-month and nine-month periods ended September 30, 2001 were $9.8 million and $20.9 million, respectively, and are reported separately in these financial statements. It is not practical to determine the costs of such revenues.

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

	Three Months Ended September 30,		Nine Months September
	2001	2000	2001
	(Restated)	(Restated)	(Restated)
Revenues..........................	$ 90,621	$ 82,756	$ 269,849
Net loss..........................	(147,927)	(102,545)	(408,416)
Net loss per share:			
Basic and diluted............	$ (1.31)	$ (.96)	$ (3.68)
Weighted average shares......	112,518	106,906	111,017

10. STOCK-BASED CHARGES:

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(Restated)	(Restated)	(Restated)	(Restated)
Revenue............................	$ 583	$ 1,765	$ 2,456	$ 4,467
Cost of revenues...................	163	137	349	483
Sales and marketing................	15,766	8,708	53,823	25,406
Product development................	153	129	328	455
General and administrative.........	2,279	697	3,228	2,460
	$ 18,944	$ 11,436	$ 60,184	$ 33,271

HOMESTORE.COM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

11. NET LOSS PER SHARE:

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

	Three Months Ended September 30,		
	2001	2000	
Numerator:	(Restated)	(Restated)	(Res
Net loss..............................	$(138,325)	$(33,946)	$(35
Denominator:			
Weighted average shares outstanding.....	110,476	82,065	10
Basic and diluted net loss per share.........	$ (1.25)	$ (.41)	$

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 applicable to common stockholders computation was 20,423,800 and 15,832,996 at September 30, 2001 and 2000, respectively.

12. SEGMENT INFORMATION:

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

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

	Three Months Ended September 30,		
	2001	2000	
	(Restated)	(Restated)	(R
Revenues:			
Professional subscriptions................	$ 51,585	$ 31,818	$
Advertising..............................	10,184	17,017	
Other....................................	24,618	-	
	86,387	48,835	

Cost of revenues and operating expenses:			
Professional subscriptions................	24,818	19,434	
Advertising..............................	12,537	5,415	
Other....................................	15,527	-	
Unallocated..............................	151,777	64,425	
	204,659	89,274	
Loss from operations	$(118,272)	$(40,439)	$(

Revenues from professional subscriptions for the three-month and nine-month periods ended September 30, 2001 included $9.8 million and $20.9 million, respectively, of revenue from related parties. There were none in fiscal 2000. In connection with acquisitions in 2001, the Company expanded its segment presentation to include a third, "other" segment. The Company's Welcome Wagon business constitutes $14.9 million and $35.5 million of revenue, respectively, and $7.3 million and $24.4 million of expense, respectively, in the three-month and nine-month periods ended September 30, 2001, of those amounts included in the "other" classification.

13. COMMITMENTS AND CONTINGENCIES:

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

14. SUBSEQUENT EVENTS:

On October 25, 2001, the Company announced an organizational realignment and cost reduction plan to align its cost structure with the current business environment. Included in this plan is the release of up to 700 employees or approximately 20% of the Company's workforce, the closing of office facilities and certain international operations, and the discontinuance of certain products. The Company will take a fourth quarter charge for costs related to the implementation of this plan, estimated between $50.0 million and $100.0 million.

On October 30, 2001, the Company announced an agreement with the Budget Group, Inc. ("Budget") to extend a strategic marketing alliance while at the same time settling the Company's stock price guarantee due in March 2002. Under the agreement, the company issued to Budget approximately 4.8 million shares of the Company's common stock in exchange for the cancellation of Budget's put option included in its original agreement with the Company. Budget agreed to changes in the appearance of the Homestore (TM) logos on at least 30,000 Budget Group trucks. Additionally, the agreement calls for Budget to advertise the Company's name an additional year through March 2011. The company's shares issued to Budget will be tradable following the registration statement, as filed on November 2, 2001, being declared effective by the SEC. Trade volume and timing restrictions will exist on the shares covered by the registration statement.

The Company is currently assessing the carrying values of certain long-lived assets, consisting primarily of goodwill and other intangibles of approximately $1.1 billion and other assets of approximately $300 million. The assessment is being performed pursuant to SFAS No. 121. Due to the announced realignment plan, the current sustained downturn in financial markets, and the Company's current business outlook, the Company believes it is required to evaluate whether an impairment of long-lived assets exists. Under SFAS No. 121, the Company will determine if the carrying values of its long-lived assets are recoverable on an undiscounted cash flows basis applied at the lowest level of separately identifiable cash flows. If the long-lived assets are not recoverable on this basis, an impairment loss will be recognized based on the excess of carrying value over the discounted future cash flows. Any such impairment would first be allocated to the goodwill of that asset group being evaluated. The Company preliminarily anticipates recording an impairment charge in the fourth quarter 2001 ranging from approximately $650.0 million to $950.0 million.

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 its 2000 and 2001 financial results in its 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 the Company's business, financial condition, cash flows and results of operations. In addition, the costs of defending any litigation can be high and divert management's attention from the day to day operations of the Company's business.

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

Company's financial results. The Company is cooperating with the SEC in 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 had not been filed with the SEC on a timely basis. The Company has requested a hearing on the matter and is working to update its financial statements prior to the hearing. However, the Company cannot make assurances 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.

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

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

On December 21, 2001, we announced that the Audit Committee of our Board of Directors was conducting an inquiry of certain of our accounting practices and that the results of the inquiry to date determined that certain of our financial statements would require restatement. The Audit Committee retained independent counsel and independent accountants to assist in connection with the inquiry. On January 2, 2002, we concluded, based on preliminary findings of the inquiry, that our financial statements for each of the three quarters ended September 30, 2001 would be restated On February 13, 2002, we concluded, based upon preliminary findings of the inquiry, that our financial statements, as of, and for the year ended December 31, 2000, including certain interim periods, would be restated. On March 11, 2002, the Audit Committee concluded its inquiry. The results of the inquiry determined that for the three-month and nine-month periods ended September 30, 2001, certain transactions resulting in revenue recognition of $17.1 million and $81.6 million, respectively, 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. The results of the inquiry also determined that in the three-month and nine-month periods ended September 30, 2000, revenue of $11.1 million and $17.3 million, respectively, had been improperly recorded on this basis. 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 years 2000, 2001 and future periods are impacted. The effect of reversing the revenue associated with certain of these transactions required offsetting adjustments to various asset and liability accounts, including: accounts receivable, notes receivable, property and equipment, other assets, accrued liabilities and deferred revenue. In addition, the results of the inquiry determined that for the three-month and nine-month periods ended September 30, 2001, revenue of $11.4 million and $37.4 million, respectively was improperly recognized on the sale of certain software products and services. The transactions did not meet the revenue recognition requirements of SOP 97-2 due to the existence of other performance commitments and, accordingly, the related revenue should have been deferred through September 30, 2001.

The restated financial statements also include the effects of our early adoption of EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" which was issued in February 2002. This consensus requires companies to report certain consideration given by a vendor to a customer as a reduction in revenue. Upon adoption, companies are required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement display requirements of the consensus. We have adopted this consensus and the effect on the three-month and nine-month periods ended September 30, 2001 was to reduce previously reported revenue and expense by $1.2 million and $4.0 million, respectively, with no effect on net loss or net loss per share. The effect on the three-month and nine-month periods ended September 30, 2000 was to reduce previously reported revenue and expense by $2.3 million and $5.0 million, respectively.

The consolidated financial statements for the three and nine months ended September 30, 2001 contained herein have been restated to incorporate these adjustments. (See Note 4 to the Consolidated Financial Statements.) As a result of these items, for the three-month and nine-month periods ended September 30, 2001, respectively, we have reduced our previously reported revenue by $29.7 million and $123.0 million; increased our net loss from $106.6 million to $138.3 million and $245.8 million to $359.0 million; and increased our net loss per share of $(.96) to $(1.25) and $(2.35) to $(3.44). For the three-month and nine-month periods ended September 30, 2000, respectively, we have reduced our previously reported revenue by $13.4 million and $22.2 million; increased our net loss from $27.1 million to $33.9 million and $81.0 million to $92.4 million; and increased our net loss per share of $(.33) to $(.41) and $(1.03) to $(1.17).

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

	Three Months Ended September 30, 2001				Three Mo
	As Reported	Adjustments	Accounting Change	Restated	As Report
Revenues...............................	$ 116,135	$ (38,297)	$ (1,250)	$ 76,588	$ 62,2
Revenues from related parties...........	--	9,799	--	9,799	
Total revenue..........................	116,135	(28,498)	(1,250)	86,387	$ 62,2

Cost of revenues......................	31,736	732	(667)	31,801	16,3
Gross profit..........................	84,399	(29,230)	(583)	54,586	45,8
Operating expenses:					
Sales and marketing................	67,453	5,785	(583)	72,655	40,6
Product development................	9,896	(250)	--	9,646	4,4
General and administrative.........	36,055	(3,079)	--	32,976	17,4
Amortization of intangible assets..	57,606	(25)	--	57,581	12,1
In-process research and development......................	--	--	--	--	4,0
Acquisition-related and other charges..........................	--	--	--	--	
Total operating expenses...............	171,010	2,431	(583)	172,858	78,7
Loss from operations...................	(86,611)	(31,661)	--	(118,272)	(32,8
Interest income, net...................	2,025	--	--	2,025	6,2
Other expense, net.....................	(22,018)	(60)	--	(22,078)	(5
Net loss applicable to common stockholders..........................	$(106,604)	$ (31,721)	--	$ (138,325)	$ (27,0
Basic and diluted net loss per share....	$ (.96)	$ (.29)	--	$ (1.25)	$ (.
Shares used to calculate basic and diluted net loss per share.............	110,476	110,476	110,476	110,476	82,0

	Nine Months Ended September 30, 2001				Nine
	As Reported	Adjustments	Accounting Change	Restated	As Reported
Revenues............................	$ 350,909	$ (139,900)	$ (4,013)	$ 206,996	$ 150,954
Revenues from related parties.........	--	20,909	--	20,909	--
Total revenue........................	350,909	(118,991)	(4,013)	227,905	$ 150,954
Cost of revenues.....................	93,782	732	(1,557)	92,957	40,516
Gross profit.........................	257,127	(119,723)	(2,456)	134,948	110,438
Operating expenses:					
Sales and marketing..............	199,363	(2,936)	(2,456)	193,971	120,239
Product development..............	24,310	(500)	--	23,810	10,222
General and administrative.......	89,677	(3,658)	--	86,019	41,918
Amortization of intangible assets..........................	146,050	(75)	--	145,975	31,455
In-process research and development.....................	--	--	--	--	4,048
Acquisition-related and other charges........................	15,632	--	--	15,632	--
Total operating expenses.............	475,032	(7,169)	(2,456)	465,407	207,882
Loss from operations.................	(217,905)	(112,554)	--	(330,459)	(97,444
Interest income, net.................	10,244	--	--	10,244	17,347
Other expense, net...................	(38,166)	(622)	--	(38,788)	(885
Net loss applicable to common					

stockholders.........................	$(245,827)	$ (113,176)	$ --	$(359,003)	$ (80,982
Basic and diluted net loss per share................................	$ (2.35)	$ (1.09)	$ --	$ (3.44)	$ (1.03
Shares used to calculate basic and diluted net loss per share............	104,422	104,422	104,422	104,422	78,769

Overview

Homestore.com, Inc. or Homestore, has created the leading online marketplace for home and real estate-related information and associated products and services, based on the number of visitors to our web sites, time spent on our web sites and number of property listings. Through our family of web sites, we provide a wide variety of information and tools for consumers, and are 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. Through our subsidiary, iPlace, Inc., or iPlace, we are the leading provider of online credit and neighborhood information to consumers and real estate professionals. To provide consumers with real estate listings, access to real estate professionals and other home and real estate-related information and resources, we have established relationships with key industry participants. These participants include real estate market leaders such as the National Association of REALTORS(R), or the NAR, the National Association of Home Builders, or the NAHB, the largest Multiple Listing Services, or MLSs, the NAHB Remodelors Council, the National Association of the Remodeling Industry(R), or the NARI, the American Institute of Architects, or AIA, the Manufactured Housing Institute, or MHI, real estate franchises, brokers, builders, apartment

managers and agents. We also have distribution agreements with leading Internet portal and search engine web sites, including America Online, Inc., or AOL network of properties.

Basis of Presentation

Initial Business and RealSelect Holding Structure. We were incorporated in 1993 under the name of InfoTouch Corporation, or InfoTouch, with the objective of establishing an interactive network of real estate "kiosks" for consumers to search for homes. In 1996, we began to develop the technology to build and operate real estate related Internet sites. Effective December 4, 1996, we entered into a series of agreements with the NAR and several investors. Under these agreements, we transferred technology and assets relating to advertising the listing of residential real estate on the Internet to a newly-formed company, NetSelect LLC, or LLC, in exchange for a 46% ownership interest in LLC. The investors contributed capital to a newly-formed company, NetSelect, Inc., or NSI, which owned 54% of LLC. LLC received capital funding from NSI and in turn contributed the assets and technology contributed by InfoTouch as well as the NSI capital to a newly formed entity, RealSelect, Inc., or Real Select, 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 included in the annual report on Form 10-K/A for the year ended December 31, 2000. We (InfoTouch) changed our corporate name to Homestore.com, Inc. in August 1999.

Acquisitions. In January 2001, we acquired certain assets and licenses and assumed certain liabilities from Internet Pictures Corporation, or iPIX, for $8.1 million in cash and a note in the amount of $2.25 million. In January 2001, we acquired certain assets and assumed certain liabilities from Computers for Tracts, Inc., or CFT, for approximately $4.5 million in cash and 162,850 shares of the our common stock valued at approximately $5.0 million. In February 2001, we acquired all the outstanding shares of HomeWrite, Inc., or HomeWrite, in exchange for 196,549 shares of our common stock valued at $5.6 million and assumed the HomeWrite stock option plan consisting of 196,200 outstanding stock options with an estimated fair value of $4.5 million. In February 2001, we acquired certain assets and assumed certain liabilities from Homebid.com, Inc. for approximately $3.5 million in cash. In February 2001, we acquired all of the outstanding shares of Move.com, Inc. and Welcome Wagon International, Inc., or collectively referred to as the Move.com Group, from Cendant Corporation, or Cendant, valued at approximately $757.3 million. In connection with the acquisition, 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 the Move.com Group. Cendant is restricted in its ability to sell the Homestore 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. In May 2001, we acquired certain assets and assumed certain liabilities from Homestyles Publishing and Marketing, Inc., or Homestyles, for $14.5 million in cash. In August 2001, we acquired all the outstanding shares of iPlace for approximately $73.0 million in cash and 3.5 million shares of our common stock valued at $67.9 million. In connection with the transaction, we assumed the iPlace stock option plan consisting of approximately 1.1 million outstanding stock options with an estimated fair value of $19.8 million. The acquisitions described above have been accounted for under the purchase method 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, RETT committed to purchase $75.0 million in products to be delivered to agents, brokers and other Cendant real estate franchisees over the next three years. Revenues from RETT and Cendant in the three-month and nine-month periods ended September 30, 2001 were $9.8 million and

$20.9 million, respectively, and are reported separately in these financial statements. It is not practical to determine the costs of such revenues.

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

Three Months Ended September 30, 2001 and 2000

Revenues

Revenues increased approximately 77% to $86.4 million for the three months ended September 30, 2001 from revenues of $48.8 million for the three months ended September 30, 2000. The increase was primarily due to increased revenue from professional subscriptions as well as an increase due to the acquisitions.

Our subscription revenue segment consists of The Real Estate Services Group revenues. The Real Estate Services Group is comprised of our REALTOR.com(R), Homebuilder.com(TM), Homestore(TM) Apartments & Rentals, eNeighborhoods(TM) and other real estate businesses.

Real Estate Services revenues increased approximately 62% to $51.6 million for the three months ended September 30, 2001, compared to $31.8 million for the three months ended September 30, 2000. Real Estate Services revenues represented approximately 60% of total revenues for the three months ended September 30, 2001 compared to 65% of total revenues for the three months ended September 30, 2000. The growth in revenue from real estate services was due to increases in the number of professional subscriptions, including a bulk purchase of subscription-based products. The number of professional subscribers increased 182% to approximately 369,000 compared to professional subscribers for the three months ended September 30, 2000. The increase in the number of professionals and the corresponding increase in the real estate services revenue was primarily due to the acquisition of the Move.com Group. Acquisitions of Homestyles, iPIX and eNeighborhoods contributed to the increase in real estate services revenue. We are projecting a flattening of real estate services revenues over the next several quarters due to current macroeconomic conditions.

Advertising revenues decreased approximately 40% to $10.2 million for the three months ended September 30, 2001, compared to $17.0 million for the three months ended September 30, 2000. Advertising revenues represented approximately 12% of total revenues for the three months ended September 30, 2001 compared to 35% of total revenues for the three months ended September 30, 2000. The decrease was driven primarily by the non-renewal of several large advertising and sponsorship accounts, and the general softening in the online advertising market. We are projecting a decline in advertising dollars due to the general softening in the online advertising market and the reallocation of our resources from advertising sales.

Other revenues which represented approximately 28% of total revenues or

$24.6 million for the three months ended September 30, 2001, were new revenues from companies acquired in 2001. These acquired companies operated primarily in the direct market business.

Cost of Revenues

Cost of revenues, including non-cash stock-based charges, increased approximately 101% to $31.8 million for the three months ended September 30, 2001 from cost of revenues of $15.8 million for the three months ended September 30, 2000. The increase was primarily due to our overall increased sales volume as well as increases in personnel, royalties, hosting costs and depreciation during the three months ended September 30, 2001 as compared to the three months ended September 30, 2000. Also contributing to the increase in cost of revenues were our recent acquisitions, primarily the acquisitions of the Move.com Group, iPIX, The Hessel Group, or THG, and iPlace. Due to the organization realignment and cost reduction plan announced on October 25, 2001, we anticipate reductions in cost of revenues in the future.

Gross margin percentage for the three months ended September 30, 2001 was 63.2%, down from gross margin percentage of 67.6% for the three months ended September 30, 2000. The decrease in gross margin percentage was primarily due to a decrease in advertising revenues which historically have larger gross margins. We anticipate a continued decline in gross margin in our fourth quarter of 2001 as a result of the anticipated decline in advertising sales.

Operating Expenses

Sales and marketing. Sales and marketing expenses, including non-cash stock-based charges, increased approximately 105% to $72.7 million for the three months ended September 30, 2001 from sales and marketing of $35.4 million for the three months ended September 30, 2000. The increase was due to increase in salaries and commissions, customer service related costs, amortization of new marketing deals, depreciation related to fixed assets, and stock-based charges. Stock-based charges, included in sales and marketing, increased by $7.1 million to $15.8 million for the three months ended September 30, 2001 from $8.7 million for the three months ended September 30, 2000, primarily due to amortization of stock-based charges relating to an Internet portal distribution agreement with AOL. In April 2000, in connection with our marketing and distribution agreement with AOL, we recorded prepaid distribution in the amount of $185.9 million, which represented the fair market value of the approximately 3.9 million shares issued to AOL and the fair market value of the guaranteed stock price, which was determined using the Black-Scholes option pricing model. See Note 19 of the notes to our audited financial statements included in our Annual Report on Form 10-K/A for the year ended December 31, 2000. The $185.9 million stock-based charge is being expensed ratably to sales and marketing over the five-year term of the agreement, resulting in a quarterly expense of approximately $9.3 million. Also contributing to the increase in sales and marketing expenses were our acquisitions, primarily the acquisition of the Move.com Group, iPlace and iPIX. Due to the organization realignment and cost reduction plan we announced on October 25, 2001, we anticipate reductions in sales and marketing expenses in the future.

Product development. Product development expenses, including non-cash stock-based charges, increased approximately 116% to $9.6 million for the three months ended September 30, 2001 from product development expenses of $4.5 million for the three months ended September 30,