MOVE INC
Form 10-Q
August 07, 2006

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

Form 10-Q

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from __________ to __________

Commission File Number 000-26659

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

Delaware	**95-4438337**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
30700 Russell Ranch Road	
Westlake Village, California	**91362**
(Address of Principal Executive Offices)	*(Zip Code)*

(805) 557-2300
(Registrant s Telephone Number, including Area Code:)

Homestore, Inc.
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

At August 1, 2006, the registrant had 152,055,724 shares of its common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

MOVE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2006 (Unaudited)	December 31, 2005
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,667	$ 13,272
Short-term investments	132,150	139,050
Accounts receivable, net	18,764	15,966
Other current assets	22,093	19,485
Total current assets	185,674	187,773
Property and equipment, net	28,263	20,717
Goodwill, net	23,877	19,502
Intangible assets, net	17,408	14,264
Restricted cash	4,171	5,026
Other assets	1,423	1,744
Total assets	$ 260,816	$ 249,026
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,070	$ 6,427
Accrued expenses	28,429	40,879
Obligation under capital leases	1,919	1,005
Deferred revenue	56,456	43,652
Total current liabilities	88,874	91,963
Obligation under capital leases	3,065	
Other liabilities	3,542	3,790
Total liabilities	95,481	95,753
Commitments and contingencies (see note 11)		
Series B convertible preferred stock	93,705	91,349
Stockholders equity:		
Series A convertible preferred stock		

Common stock	152	149
Additional paid-in capital	2,057,675	2,047,456
Deferred stock-based charges		(351)
Accumulated other comprehensive income	394	343
Accumulated deficit	(1,986,591)	(1,985,673)
Total stockholders equity	71,630	61,924
Total liabilities and stockholders equity	$ 260,816	$ 249,026

The accompanying notes are an integral part of these unaudited
Condensed Consolidated Financial Statements.

MOVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands, except per share amounts) (Unaudited)			
Revenue	$ 73,891	$ 63,253	$ 142,870	$ 119,709
Cost of revenue	16,447	13,539	32,853	26,440
Gross profit	57,444	49,714	110,017	93,269
Operating expenses:				
Sales and marketing	28,312	22,689	53,653	45,051
Product and web site development	8,793	5,062	17,148	9,441
General and administrative	19,378	19,692	40,354	36,069
Amortization of intangible assets	589	958	1,336	2,155
Restructuring charges (see note 5)		(1,442)		(1,442)
Total operating expenses	57,072	46,959	112,491	91,274
Income (loss) from operations	372	2,755	(2,474)	1,995
Interest income, net	1,794	496	3,409	849
Other income, net	431	69	503	81
Net income	2,597	3,320	1,438	2,925
Convertible preferred stock dividend	(885)		(1,763)	
Net income (loss) applicable to common stockholders	$ 1,712	$ 3,320	$ (325)	$ 2,925
Unrealized loss on marketable securities		(2)		(4)
Foreign currency translation	53	(30)	51	(67)
Comprehensive income (loss)	$ 1,765	$ 3,288	$ (274)	$ 2,854
Net income (loss) per common share: (see note 8)				
Basic net income (loss) applicable to common stockholders	$ 0.01	$ 0.02	$ (0.00)	$ 0.02

Diluted net income (loss) applicable to common stockholders	$	0.01	$	0.02	$	(0.00)	$	0.02
Shares used to calculate basic and diluted net income (loss) per share applicable to common stockholders: (see note 8)								
Basic		150,769		146,729		149,865		146,693
Diluted		165,127		151,842		149,865		153,037

The accompanying notes are an integral part of these unaudited
Condensed Consolidated Financial Statements.

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MOVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,	
	2006	2005
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Net income	$ 1,438	$ 2,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,015	3,460
Amortization of intangible assets	1,336	2,155
Provision for doubtful accounts	540	565
Stock-based compensation and charges	5,886	517
Other non-cash items	(315)	2
Changes in operating assets and liabilities:		
Accounts receivable	(1,842)	(716)
Other assets	(2,380)	(1,650)
Accounts payable and accrued expenses	(16,995)	(5,409)
Deferred revenue	11,941	4,854
Net cash provided by operating activities	4,624	6,703
Cash flows from investing activities:		
Purchases of property and equipment	(6,854)	(4,204)
Maturities of short-term investments	16,950	4,000
Purchases of short-term investments	(10,050)	(8,710)
Acquisitions, net	(9,572)	
Net cash used in investing activities	(9,526)	(8,914)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	4,816	535
Restricted cash	855	(77)
Payments on capital lease obligations	(1,374)	(927)
Net cash provided by (used in) financing activities	4,297	(469)
Change in cash and cash equivalents	(605)	(2,680)
Cash and cash equivalents, beginning of period	13,272	14,819

Cash and cash equivalents, end of period	$ 12,667	$ 12,139

The accompanying notes are an integral part of these unaudited
Condensed Consolidated Financial Statements.

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MOVE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Move, Inc. (the Company) has created an online service that enables consumers to find real estate listings and other content related to residential real estate, moving and relocation. The Company s web sites collectively have become the leading consumer destination on the Internet for home and real estate-related information based on the number of visitors, time spent on its web sites and number of property listings. The Company generates most of its revenue from selling advertising and marketing solutions to both real estate industry participants, including real estate agents, homebuilders and rental property owners, and other local and national advertisers interested in reaching the Company s consumer audience (before, during or after a move). The Company also provides software solutions to real estate agents to assist them in managing their client interactions and architects home plans to consumers considering building a new home. The Company derives all of its revenue from its North American operations.

During the second quarter of 2006, the Company launched Move.com™ as a real estate listing and move-related search site. Shortly after its launch, Move.com™ replaced HomeBuilder.com®, RENTNET® and Homestore.com® and the Company began promoting those services under the Move™ brand. The Company s primary consumer web site is now Move.com™ which provides new home, apartment, corporate housing, and self-storage listings and is a home information resource site with an emphasis on content related to mortgage financing, moving and storage, and home and garden activities. The Company s web sites also include REALTOR.com®, the official site of the National Association of REALTORS® (NAR); SeniorHousingNet.com™, a comprehensive resource for seniors; and Moving.com™ which connects consumers with moving companies, van lines, truck rental providers and self storage facilities.

2. Basis of Presentation

The Company s unaudited Condensed Consolidated 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 issued by the Securities and Exchange Commission (SEC). 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 unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Form 10-K for the year ended December 31, 2005, which was filed with the SEC on March 13, 2006. The results of operations for these interim periods are not necessarily indicative of the operating results for a full year.

3. Significant Accounting Policy

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment, (SFAS 123R) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values. SFAS 123R supersedes the Company s previous accounting under Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25) for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulleting No. 107 (SAB 107) related to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company s fiscal year 2006. The Company s Consolidated Financial Statements as of and for the three and six months ended June 30, 2006 reflect the impact of SFAS 123R. In accordance with the modified prospective transition method, the Company s Consolidated Financial Statements for prior periods have not been restated to reflect and do not include the impact of SFAS 123R. Stock-based compensation expense recognized under SFAS 123R for the three and six months ended June 30, 2006 was $2.5 million and $5.9 million, respectively, related to employee stock options and restricted stock.

Prior to January 1, 2006, the Company accounted for stock options granted in accordance with the provisions and related interpretations of APB 25 as permitted by Statement of Accounting Standards No. 123, Accounting for

Stock-based Compensation, (SFAS 123). Therefore, there was no stock-based compensation related to employee stock options for the three and six months ended June 30, 2005. See Note 6 for additional information.

4. Recent Accounting Developments

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109. FIN No. 48 clarifies the accounting for

uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. FIN No. 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the possible impact implementing FIN No. 48 may have on its financial position and results of operations.

In June 2006, FASB ratified EITF Issue No. 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)* (EITF No. 06-03). Under EITF No. 06-03, a company must disclose its accounting policy regarding the gross or net presentation of certain taxes. If taxes included in gross revenues are significant, a company must disclose the amount of such taxes for each period for which an income statement is presented (i.e., both interim and annual periods). Taxes within the scope of this EITF are those that are imposed on and concurrent with a specific revenue-producing transaction. Taxes assessed on an entity s activities over a period of time, such as gross receipts taxes, are not within the scope of the EITF. EITF No. 06-03 is effective for the first annual or interim reporting period beginning after December 15, 2006. We plan to report taxes collected from customers on a net presentation basis.

5. Restructuring Charges

The Company has taken four restructuring charges: in the fourth quarter of 2001, the first quarter of 2002, the third quarter of 2002 and the fourth quarter of 2003. All of these charges were a part of plans approved by the Company s Board of Directors, with the objective of eliminating duplicate resources and redundancies. The Company has also revised previous estimates from time to time.

A summary of activity in 2005 and 2006 related to the four restructuring charges and the changes in the Company s estimates is as follows (in thousands):

	Employee Termination Benefits	Lease Obligations and Related Charges	Contractual Obligations	Total
Restructuring accrual at January 1, 2005	$ 21	$ 8,404	$ 401	$ 8,826
Cash paid		(859)	(4)	(863)
Restructuring accrual at March 31, 2005	21	7,545	397	7,963
Cash paid		(941)	(1)	(942)
Change in estimates	(21)	(1,370)	(51)	(1,442)
Restructuring accrual at June 30, 2005		5,234	345	5,579
Cash paid		(900)	(4)	(904)
Change in estimates		52	(52)	
Restructuring accrual at September 30, 2005		4,386	289	4,675
Cash paid		(986)		(986)
Change in estimates		155	(44)	111
Restructuring accrual at December 31, 2005		3,555	245	3,800
Cash paid		(882)	(11)	(893)

Change in estimates				
Restructuring accrual at March 31, 2006		2,673	234	2,907
Cash paid		(908)	(8)	(916)
Change in estimates		35	(35)	
Restructuring accrual at June 30, 2006	$	$ 1,800	$ 191	$ 1,991

Substantially all of the remaining restructuring liabilities at June 30, 2006 will be paid by the end of fiscal year 2006. Any further changes to the accruals based upon current estimates will be reflected through the restructuring charges line in the Consolidated Statement of Operations.

6. Goodwill and Other Intangible Assets

Goodwill, net, by segment, as of June 30, 2006 and December 31, 2005 is as follows (in thousands):

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	June 30, 2006	December 31, 2005
Real Estate Services	$ 12,988	$ 12,988
Move-Related Services	10,889	6,514
Total	$ 23,877	$ 19,502

Definite-lived intangible assets consist of purchased content, portal relationships, purchased technology, and other miscellaneous agreements entered into in connection with business combinations and are amortized over expected periods of benefits. The only indefinite lived intangibles are certain trade and domain names. There are no expected residual values related to these intangible assets (in thousands):

	June 30, 2006		December 31, 2005	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Trade and domain names, trademarks, web sites and brand names	$ 21,746	$ 7,551	$ 19,746	$ 6,902
Purchased technology	10,499	9,166	9,099	9,099
NAR operating agreement	1,578	676	1,578	601
Other	7,381	6,403	6,301	5,858
Total	$ 41,204	$ 23,796	$ 36,724	$ 22,460

Amortization expense for intangible assets was $0.6 million and $1.3 million, respectively, for the three and six months ended June 30, 2006 and $1.0 million and $2.2 million, respectively, for the three and six months ended June 30, 2005. Amortization expense for the next five years is estimated to be as follows (in thousands):

Years Ended December 31,	Amount
2006 (remaining 6 months)	$ 995
2007	1,990
2008	1,963
2009	1,687
2010	1,620

7. Stock-Based Compensation and Charges

Prior to the adoption of SFAS 123R, the Company accounted for stock-based employee compensation arrangements in accordance with the provisions of APB 25, and complied with the disclosure provisions of SFAS 123. Under APB 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 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 Company granted restricted stock awards to members of its board of directors as compensation in 2003, 2004, 2005 and in the three months ended June 30, 2006. The total number of shares issued in the three months ended June 30, 2006 was 109,500, with a total intrinsic value of $0.5 million. These shares will vest on the third anniversary of their issuance. As of June 30, 2006 and 2005, there were 292,200 and 619,288 unvested shares of restricted stock

issued to members of the Company s board of directors.

Prior to the adoption of SFAS 123R on January 1, 2006, the intrinsic value of restricted stock awards granted to the Company s board of directors was recorded as deferred compensation. Upon adoption of SFAS 123R, the deferred compensation balance of approximately $351,000 was reclassified to additional-paid-in-capital.

The Company has granted restricted stock awards to its Chief Executive Officer in consideration for his service in 2003 and 2004. These shares will vest on the third anniversary of their issuance. As of June 30, 2006 and 2005, there were 186,662 unvested shares of restricted stock issued to the Company s Chief Executive Officer. The intrinsic value of these restricted stock awards was included in the results of operations in the period in which they were granted.

On June 22, 2006, the Board of Directors awarded 4,395,000 performance-based restricted stock units to certain of the Company s executive officers. Based on the terms of the awards, the officers may earn shares of the Company s stock based on

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the attainment of certain performance goals relating to the Company s revenues and EBITDA for the fiscal year ended December 31, 2008. The fair value of these restricted stock units on the grant date was $21.0 million and will be amortized over the service period. Currently, the Company is assuming that 100% of the shares will be earned by the end of the performance period. This assumption will be reviewed each period and the total value will be adjusted accordingly. The total costs amortized during the quarter ended June 30, 2006 associated with these restricted stock units was $182,000, which is included in the total stock based compensation detailed below.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to January 1, 2006, but not yet vested, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123; and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Compensation costs are recognized using a straight-line amortization method over the vesting period. Results for prior periods have not been restated.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the ranges of assumptions in the following table. Our computation of expected volatility is based on a combination of historical and market-based implied volatility. Due to the unusual volatility of the Company s stock price around the time of the restatement of its financial statements in 2002 and several historical acquisitions that changed the Company s risk profile, historical data was more heavily weighted toward the most recent three years of stock activity. The expected term of options granted was derived by averaging the vesting term with the contractual term. The risk-free interest rates are based on U.S. Treasury zero-coupon bonds for the periods in which the options were granted.

	Three Months Ended June 30, 2006	**Six Months Ended June 30, 2006**
Risk-free interest rates	4.85 - 5.18%	4.35 - 5.18%
Expected term (in years)	6.06	6.06
Dividend yield	0%	0%
Expected volatility	80%	80%

As a result of adopting SFAS 123(R) on January 1, 2006, the Company s net income for the three months and six months ended June 30, 2006 are $2.4 million and $5.7 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Basic net income (loss) per share for the three and six months ended June 30, 2006 are $0.02 and $0.04 lower, respectively, and diluted net income (loss) per share for the three and six months ended June 30, 2006 are $0.01 and $0.04 lower, respectively, than if the Company had continued to account for share-based compensation under APB 25. The following chart summarizes the stock-based compensation and charges that have been included in the following captions for each of the periods presented (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
Cost of revenue	$ 29	$	$ 158	$
Sales and marketing	371	74	928	149
Product and web site development	340		839	
General and administrative	1,635	59	3,961	368
Total	$ 2,375	$ 133	$ 5,886	$ 517

Stock-based compensation and charges in sales and marketing includes costs related to vendor agreements and general and administrative includes costs related to the amortization of restricted stock grants.

The following table illustrates the effect on net income (loss) and net income (loss) per share had the Company applied the fair value recognition provisions of SFAS 123 to stock options granted under the Company s equity-based compensation plans for the three and six months ended June 30, 2005. For the purposes of this pro forma disclosure, the grant-date fair value of the Company s stock options was estimated using a Black-Scholes option-pricing model and amortized over the stock-options vesting periods (in thousands, except per share amounts).

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	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income applicable to common stockholders:		
As reported	$ 3,320	$ 2,925
Add: Stock-based employee compensation charges included in reported net income (1)		250
Deduct: Total stock-based compensation determined under the fair value-based method for all awards	(4,410)	(8,363)
Pro forma net loss	$ (1,090)	$ (5,188)
Net income (loss) per share:		
Basic as reported	$ 0.02	$ 0.02
Diluted as reported	$ 0.02	$ 0.02
Basic pro forma	$ (0.01)	$ (0.04)
Diluted pro forma	$ (0.01)	$ (0.04)

(1) Represents restricted stock compensation expense.

A summary of option activity under the plans as of June 30, 2006, and changes during the quarter then ended, is presented below (in thousands, except per share amounts):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2005	32,215	$ 2.84		
Granted	135	6.13		
Exercised	(933)	2.59		
Cancelled	(1,083)	3.21		
Outstanding at March 31, 2006	30,334	2.84	7.13	$ 128,468
Granted	2 ,655	5.13		
Exercised	(1,709)	1.11		
Cancelled	(202)	4.90		

Outstanding at June 30, 2006	31,078	$	3.12	7.17	$	90,086
Exercisable at June 30, 2006	19,497	$	3.00	6.24	$	64,712

The weighted-average grant-date fair value of options granted during the quarter ended June 30, 2006 was $3.71 per share. The total intrinsic value of stock options exercised during the three and six months ended June 30, 2006 was $8.2 million and $11.3 million, respectively, and for the three and six months ended June 30, 2005 was $41,000 and $165,000, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

A summary of the Company s non-vested options as of and for the six months ended June 30, 2006 is as follows (in thousands, except per share amounts):

	Number of Shares		**Weighted Average Exercise Price**
Non-vested options at December 31, 2005	12,429	$	2.72
Granted	135		6.13
Vested	(1,365)		2.31
Cancelled	(1,083)		3.21
Non-vested options at March 31, 2006	10,116	$	2.76
Granted	2,655		5.13
Vested	(988)		2.03
Cancelled	(202)		4.90
Non-vested options at June 30, 2006	11,581	$	3.33

As of June 30, 2006, there was $28.8 million of unrecognized compensation cost related to non-vested stock options awards granted under the Company s plans. Substantially all of that cost is expected to be recognized over a weighted average period of 2.9 years.

8. Net Income (Loss) Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Numerator:				
Net income	$ 2,597	$ 3,320	$ 1,438	$ 2,925
Convertible preferred stock dividend	(885)		(1,763)	
Less: allocation of undistributed earnings to preferred stockholders	(236)			
Net income (loss) applicable to common stockholders	$ 1,476	$ 3,320	$ (325)	$ 2,925
Denominator:				
Basic weighted average shares outstanding	150,769	146,729	149,865	146,693
Add: dilutive effect of options, warrants and restricted stock	14,358	5,113		6,344
Diluted weighted average shares outstanding	165,127	151,842	149,865	153,037
Net income (loss) per common share:				
Basic net income (loss) per share applicable to common stockholders	$ 0.01	$ 0.02	$ (0.00)	$ 0.02
Diluted net income (loss) per share applicable to common stockholders	$ 0.01	$ 0.02	$ (0.00)	$ 0.02

The basic net income (loss) per common share is computed by dividing net income, adjusted for dividends related to the Company s preferred stock during the periods they were outstanding, by the weighted average number of common shares outstanding during the period. For periods in which the Company generated income when the preferred stock was outstanding, the two-class method was used to calculate basic earnings per share whereby net income, adjusted for dividends related to the Company s preferred stock, is allocated on a pro-rata basis between common and preferred stockholders, as required by Emerging Issues Task Force (EITF) Issue 03-6, due to the preferred stockholders right to participate in dividends declared on the Company s common stock.

The diluted net income (loss) per common share generally would assume the conversion of the preferred stock into common stock if dilutive and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options and warrants and the impact of unvested restricted stock awards. However, since the impact to diluted earnings per share of the assumed conversion of the convertible preferred stock into common stock is anti-dilutive, those shares were excluded from the calculation of diluted earnings per share for the three months ended June 30, 2006.

The number of incremental shares from the assumed exercise of stock options and warrants is calculated by applying the treasury method. Common shares related to the stock options and warrants where the exercise price exceeded the average market price of the Company s common shares or the assumed exercise would have been anti-dilutive during the periods presented were also excluded from the diluted earnings per share calculation. The total

number of shares excluded from the diluted net income per common share computation were 25,757,684 and 55,900,271 for the three and six months ended June 30, 2006, respectively, and 16,877,796 and 12,318,125 for the three and six months ended June 30, 2005, respectively.

9. 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 s management evaluates performance and allocates resources based on two segments consisting of Real Estate Services for those products and services offered to industry professionals trying to reach new movers and manage their relationships with them and Move-Related Services for those products and services offered to other advertisers who are trying to reach those consumers in the process of a move. We have reclassified previously reported segment information to conform to the current period presentation. This is consistent with the data that is made available to our management to assess performance and make decisions.

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The expenses presented below for each of the business segments include an allocation of certain corporate expenses that are identifiable and benefit those segments and are allocated for internal management reporting purposes. The unallocated expenses are those corporate overhead expenses that are not directly attributable to a segment and include: corporate expenses, such as finance, legal, internal business systems, and human resources; amortization of intangible assets and stock-based charges. There is no inter-segment revenue. Assets and liabilities are not fully allocated to segments for internal reporting purposes.

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

	Three Months Ended							
	June 30, 2006				June 30, 2005			
	Real Estate Services	Move-Related Services	Unallocated	Total	Real Estate Services	Move-Related Services	Unallocated	Total
Revenue	$ 52,099	$ 21,792	$	$ 73,891	$ 45,705	$ 17,548	$	$ 63,253
Cost of revenue	8,463	7,072	912	16,447	7,024	6,113	402	13,539
Gross profit (loss)	43,636	14,720	(912)	57,444	38,681	11,435	(402)	49,714
Sales and marketing	18,075	9,358	879	28,312	15,122	7,327	240	22,689
Product and web site development	6,508	1,269	1,016	8,793	3,597	1,070	395	5,062
General and administrative	7,674	3,770	7,934	19,378	5,675	3,272	10,745	19,692
Amortization of intangible assets			589	589			958	958
Restructuring charges							(1,442)	(1,442)
Total operating expenses	32,257	14,397	10,418	57,072	24,394	11,669	10,896	46,959
Income (loss) from operations	$ 11,379	$ 323	$ (11,330)	$ 372	$ 14,287	$ (234)	$ (11,298)	$ 2,755

	Six Months Ended							
	June 30, 2006				June 30, 2005			
	Real Estate Services	Move-Related Services	Unallocated	Total	Real Estate Services	Move-Related Services	Unallocated	Total
Revenue	$ 101,348	$ 41,522	$	$ 142,870	$ 85,433	$ 34,276	$	$ 119,709
Cost of revenue	16,129	14,824	1,900	32,853	13,757	11,961	722	26,440

Gross profit (loss)	85,219	26,698	(1,900)	110,017	71,676	22,315	(722)	93,269
Sales and marketing	34,400	17,870	1,383	53,653	30,462	14,081	508	45,051
Product and web site development	12,442	2,299	2,407	17,148	6,972	1,661	808	9,441
General and administrative	15,401	7,783	17,170	40,354	10,771	6,370	18,928	36,069
Amortization of intangible assets			1,336	1,336			2,155	2,155
Restructuring charges							(1,442)	(1,442)
Total operating expenses	62,243	27,952	22,296	112,491	48,205	22,112	20,957	91,274
Income (loss) from operations	$ 22,976	$ (1,254)	$ (24,196)	$ (2,474)	$ 23,471	$ 203	$ (21,679)	$ 1,995

10. Settlement of Securities Class Action Lawsuit and Potential Obligations to Cendant Corporation

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 current and former officers and directors violated certain provisions of the Securities Exchange Act of 1934, as amended (the Exchange Act). In March 2002, the California State Teachers Retirement System was named lead plaintiff (the Plaintiff), and the complaints were consolidated in the United States District Court, Central District of California (the Securities Class Action Lawsuit). In August 2003, the Company entered into a settlement agreement with the Plaintiff to resolve all outstanding claims against the Company in the Securities Class Action Lawsuit.

In March 2003, the District Court in the Securities Class Action Lawsuit dismissed with prejudice several defendants, including Cendant Corporation (Cendant). On June 30, 2006, the United States Court of Appeals for the Ninth Circuit (Ninth Circuit) affirmed the dismissals, but remanded the case to the District Court to determine whether it would be possible for the Plaintiff to amend its complaint to state a claim against any of the dismissed defendants consistent with the Ninth Circuit s opinion in the case. The parties have until late September 2006 to seek to have the case considered by the United States Supreme Court. If Cendant is ultimately found liable or settles the claims against it in the Securities Class Action Lawsuit, Cendant will likely seek indemnification, contribution or similar relief from the Company up to the amount for which it is held liable or for which it settles. However, in March 2004, as part of the Company s settlement of the Securities Class Action Lawsuit, the United States District Court issued an order approving the Company s settlement and barring claims by third parties against the Company for indemnification, contribution and similar relief with respect to liability such third parties may have in the Securities Class Action Lawsuit.

The March 2004 order may preclude Cendant from seeking indemnification, contribution or similar relief from the Company in the event Cendant is found liable or settles claims against it in the Securities Class Action Lawsuit. However, the Company has

been advised by counsel that the law is unclear on whether Cendant would be so precluded. Therefore, the Company would likely incur significant expenses in defending such an action by Cendant and could ultimately be found liable to Cendant or settle with Cendant, notwithstanding the bar order. Such expenses, liability or settlement could have a material adverse effect on the Company s results of operations and financial position.

In addition, if Cendant is not permitted to share in the settlement of the Securities Class Action Lawsuit (which would be the case if Cendant is ultimately found liable in the Securities Class Action Litigation), the Company has agreed to pay or otherwise provide to Cendant the amount of money and/or other consideration that Cendant would have been otherwise entitled to receive from that portion of the class action settlement fund provided by the Company had Cendant been a class member and Cendant s proof of claim in respect of its shares had been accepted in full. Because Cendant s status in the Securities Class Action Litigation has not been finally resolved, Cendant has not yet received any of the cash or shares of stock we paid in the settlement, but rather Cendant s allocation of the cash and stock is being held in trust by Plaintiff s counsel. If Cendant is ultimately precluded from participating in the settlement, the Company estimates that it would have to pay Cendant approximately $2.3 million in cash and issue to Cendant approximately 3.79 million shares of the Company s common stock.

11. Commitments and Contingencies

Contingencies Under Litigation Settlements

See Note 10, Settlement of Securities Class Action Lawsuit and Potential Obligations to Cendant Corporation for contingencies related to the settlement of the Securities Class Action Lawsuit.

Contingencies Related to Continuing Governmental Proceedings

In January 2002, the Company was notified that the Securities and Exchange Commission (the SEC) had issued a formal order of private investigation in connection with accounting matters that resulted in the restatement of the Company s consolidated financial statements in March 2002. The SEC requested that the Company provide it with certain documents concerning the restatement and requested access to certain of the Company s current and former employees for interviews. The Company has cooperated and continues to cooperate fully with the SEC s investigation as well as a parallel investigation by the United States Department of Justice (the DOJ).

Since September 2002, certain of the Company s former employees have entered into plea agreements with the United States Attorney s Office and the SEC in connection with the SEC s investigation. Also, in September 2002, the SEC and the DOJ informed the Company that, in light of the actions taken by the Company s Board of Directors and the Company s Audit Committee and the Company s cooperation in the SEC s investigation, those agencies would not bring any enforcement action against the Company. In April 2005, a federal grand jury in Los Angeles indicted two of our former officers, Stuart Wolff and Peter Tafeen, in connection with the accounting irregularities described above. On March 2, 2006, Mr. Tafeen pled guilty to one count of insider trading. On June 23, 2006, Mr. Wolff was convicted by the federal district court on all counts. Mr. Wolff is expected to appeal his conviction. Although the Company has no further indemnification obligations to Messrs. Wolff or Tafeen, the Company may continue to incur additional costs in connection with the accounting matters that resulted in our restatement, including the cost of indemnifying certain other current and former directors and officers, and making documents available to the SEC and DOJ.

Litigation Contingencies

In June 2002, Tren Technologies Holdings LLC (Tren) sued the Company, NAR and NAHB in the United States District Court, Eastern District of Pennsylvania for patent infringement based on the Company s operation of the REALTOR.com® and HomeBuilder.com® web sites. Specifically, Tren alleged that it owns a patent (U.S. Patent No. 5,584,025) on an application, method and system for tracking demographic customer information, including tracking information related to real estate and real estate demographics information, and that the Company has developed an infringing technology for the NAR s REALTOR.com® and the NAHB s HomeBuilder.com® web sites. Tren s complaint sought an unspecified amount of damages (including treble damages for willful infringement and attorneys fees) and a permanent injunction against the Company using the technology. In October 2003, Kevin Keithley (Keithley) sued the Company, the NAR and the NAHB in the United States District Court for the Northern District of California asserting that he was the exclusive licensee of U.S. Patent No. 5,584,025 and alleging the same infringement and seeking the same relief. On May 22, 2004, the Company filed with the United States Patent and Trademark Office (USPTO) a Request for Reexamination of the patent at issue in these actions. The Keithley action

was stayed pending the reexamination proceeding. In August 2005, the USPTO confirmed the original claims of the patent and allowed additional claims. Accordingly, the stay in the Keithley action was lifted and the parties have agreed that the Keithley action should go forward. On May 24, 2006, the court in Pennsylvania dismissed the Tren case without prejudice. The Company has moved for dismissal of the Keithley action for lack of standing (*i.e.,* Keithley s lack of ownership of the patent) and for abuse of process. The Company believes that the claims in both the Tren and Keithley actions are without merit and intends to vigorously defend the cases.

In March 2004, three former shareholders of WyldFyre Technologies, Inc. (WyldFyre), two of whom had previously opted

out of the settlement of the Securities Class Action Lawsuit, filed a complaint in the Superior Court of California, County of Los Angeles against the Company, two of its former officers and Merrill Lynch & Co., Inc. In August 2005, plaintiffs filed a second amended complaint. In the second amended complaint, two of the three former shareholders allege claims against the Company for vicarious liability for fraud allegedly committed by the Company s former officers, unfair business practices, unjust enrichment and breach of contract arising out of the Company s acquisition of WyldFyre in March 2000. The plaintiffs seek restitution, recissionary or compensatory damages in an unspecified amount, disgorgement of benefits, punitive damages and costs of litigation including attorneys fees. The Company has filed an answer to the second amended complaint. Except for certain limited discovery, proceedings in this matter have been stayed on a motion by the United States Attorney for the Central District of California pending the resolution of certain federal criminal charges asserted against Mr. Wolff, a former officer of the Company, who is a co-defendant in this matter. On June 23, 2006, Mr. Wolff was convicted by a jury on all counts and the United States Attorney has informed the state court in which this case is pending that she would not object to the lifting of the stay. The Company expects the stay will be lifted and discovery to resume within the next several weeks. The Company intends to vigorously defend this action. At this time, however, the Company is unable to express an opinion on the outcome of this case.

In December 2005, CIVIX-DDI, LLC (CIVIX) filed suit against the NAR, the Company, Hotels.com, L.P. and Hotels.com GP LLC in the United States District Court for the Northern District of Illinois, Eastern Division. The complaint alleges that the Company and the other defendants infringe U.S. Patents 6,385,622; 6,408,307; 6,415,291; and 6,473,692. The complaint alleges that the Company and the NAR infringe these patents by offering, providing, using and operating location-based searching services through the REALTOR.com® web site and requests an unspecified amount of damages (including treble damages for willful infringement and attorneys fees) and an injunction. Yahoo! Inc. was added as a defendant in the Amended Complaint which was filed by CIVIX on January 11, 2006. The Company is defending both itself and the NAR. On January 26, 2006, the Company and the NAR filed their answer and counterclaims responding to CIVIX s complaint denying that the Company and the NAR infringed on these patents and that these patents are invalid. CIVIX has replied to the answer and counterclaims filed by the Company and the NAR. On May 31, 2006, the case was consolidated with another action brought by CIVIX against Orbitz, LLC, Yellowpages.com and Travelocity.com, Inc. The Company is continuing its evaluation and investigation of the allegations made in the lawsuit and intends to vigorously defend against them.

In June 2006, InternetAd Systems, LLC (InternetAd) filed suit against the Company, Turner Broadcasting Systems, Inc., FreeRealTime.com, Inc., Knight Ridder Digital, and Condenet, Inc. in the United States District Court for the Northern District of Texas, Dallas Division. The complaint alleges that InternetAd is licensee of U.S. Patents 5,572,643; 5,737,619; 6,185,586; and 6,457,025, and that the Company infringes these patents by manufacturing, making, having made, and/or using products and/or advertising systems through the Company s web sites. InternetAd requests an unspecified amount of damages, as well as interest, attorney fees and costs, and an injunction. An answer or other response is not yet due. The Company intends to deny that it infringed on these patents and to assert that these patents are invalid, and to vigorously defend against the claims asserted.

As part of the sale in 2002 of the Company s ConsumerInfo division to Experian Holdings, Inc. (Experian), $10.0 million of the purchase price was put in escrow to secure our indemnification obligations (the Indemnity Escrow). The Indemnity Escrow was scheduled to terminate in the third quarter of 2003, but prior to the scheduled termination, Experian demanded indemnification from the Company for claims made against Experian or its subsidiaries by several parties and the Federal Trade Commission (FTC), including allegations of unfair and deceptive advertising in connection with ConsumerInfo s furnishing of credit reports and providing Advice for Improving Credit that appeared on its web site both before, during, and after the Company s ownership of ConsumerInfo. Under the stock purchase agreement, pursuant to which the Company sold ConsumerInfo to Experian, the Company could have elected to defend against the claims, but because the alleged conduct occurred both before and after its sale to Experian, the Company elected to rely on Experian to defend it. Accordingly, the Company has not made a complete evaluation of the underlying claims, but rather receives periodic updates from Experian and its counsel concerning their defense of the claims. The FTC action against Experian has now been resolved by stipulated judgment that requires, among other things, that refunds be made available to certain customers who purchased ConsumerInfo

products during the period November 2000 through September 2003. The Company is unable to estimate the amounts for which Experian will seek indemnity from it at this time. Other civil actions for which Experian demanded indemnification from the Company continue. Because those cases are continuing, the amounts to be paid by Experian arising from these actions for which Experian will seek indemnity from the Company cannot be estimated. There is no assurance that Experian will not seek to recover from the Company an amount in excess of the Indemnity Escrow. Under the terms of the stock purchase agreement, the Company s maximum potential liability for the claims by Experian is capped at $29.3 million less the balance in the Indemnity Escrow, which was $7.7 million at June 30, 2006.

In the opinion of the Company, the costs associated with the resolution of existing legal claims cannot be precisely estimated at this time, and the Company has not yet determined whether such costs will have a material adverse impact on the Company s financial position, results of operations or cash flows.

Contingencies

From time to time, the Company is party to various other litigation and administrative proceedings relating to claims arising from its operations in the ordinary course of business. As of the date of this Form 10-Q and except as set forth herein, the Company is not a party to any other litigation or administrative proceedings that management believes will have a material adverse effect on the Company s business, results of operations, financial condition or cash flows.

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12. Acquisition

On February 21, 2006, the Company acquired certain assets and assumed certain liabilities of Moving.com, Inc. from TMP Directional Marketing, LLC for approximately $9.6 million in cash. Moving.com connects consumers with moving companies, van lines, truck rental providers and self storage facilities. 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 $4.5 million has been allocated to identifiable intangible assets and is being amortized on a straight-line basis over the estimated useful lives of the assets ranging from three to seven years with the exception of trade and domain names which have an indefinite life. The remaining $4.4 million of purchase price represents goodwill.

Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

This Form 10-Q 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 are forward-looking. In particular, the statements herein regarding industry prospects and our future consolidated 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 Form 10-Q, as well as those discussed in our Annual Report on Form 10-K for the year ended December 31, 2005, and in other documents we file with the Securities and Exchange Commission, or SEC. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarter ended March 31, 2006.

Our History

We were incorporated in 1993 under the name of InfoTouch Corporation 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. In 1996, we entered into a series of agreements with NAR and several investors and transferred technology and assets to a newly-formed subsidiary, which ultimately became RealSelect, Inc. RealSelect, Inc. in turn entered into a number of formation agreements with, and issued cash and common stock representing a 15% ownership interest in RealSelect, Inc. to, NAR in exchange for the rights to operate the REALTOR.com® web site and pursue commercial opportunities relating to the listing of real estate on the Internet. That 15% ownership in RealSelect, Inc. was exchanged for stock in a new parent company, Homestore.com, Inc. in August 1999. Our initial operating activities primarily consisted of recruiting personnel, developing our web site content and raising our initial capital and we began actively marketing our advertising products and services to real estate professionals in January 1997. We changed our name to Homestore, Inc. in May 2002 and to Move, Inc. in June 2006.

Our Business

We have created an online service that enables consumers to find real estate listings and other content related to residential real estate, moving and relocation. Our web sites collectively have become the leading consumer destination on the Internet for home and real estate-related information based on the number of visitors, time spent on our web sites and number of property listings. We generate most of our revenue from selling advertising and marketing solutions to both real estate industry participants, including real estate agents, homebuilders, and rental property owners, and other local and national advertisers interested in reaching our consumer audience before, during or after a move. We also provide software solutions to real estate agents to assist them in managing their client interactions and architects home plans to consumers considering building a new home. We derive all of our revenues from our North American operations.

During the second quarter of 2006, the Company launched Move.com™ as a real estate listing and move-related search site. Shortly after its launch, Move.com™ replaced HomeBuilder.com®, RENTNET® and Homestore.com®

and the Company began promoting those services under the Move™ brand. The Company s primary consumer web site is now Move.com™ which provides new home, apartment, corporate housing, and self-storage listings and is a home information resource site with an emphasis on content related to mortgage financing, moving and storage, and home and garden activities. The Company s web sites also include REALTOR.com®, the official site of the NAR; SeniorHousingNet™.com, a comprehensive resource for seniors; and Moving.com™ which connects consumers with moving companies, van lines, truck rental providers and self storage facilities.

Basis of Presentation

Our unaudited Condensed Consolidated Financial Statements reflect the historical results of Move, Inc. and its subsidiaries. All

significant intercompany accounts and transactions have been eliminated.

Business Trends and Conditions

In recent years, our business has been, and we expect will continue to be, influenced by a number of macroeconomic, industry-wide and product-specific trends and conditions:

Market and economic conditions. In recent years, the U.S. economy has experienced low interest rates, and volatility in the equities markets. Against this backdrop, housing starts have remained strong, while the supply of apartment housing has generally exceeded demand. The foregoing conditions have meant that homebuilders spent less on advertising, given the strong demand for new houses. Conversely, apartment owners have not spent as much money on advertising, as they have sought to achieve cost savings during the difficult market for apartment owners. Both of these trends have impacted our ability to grow our business. The impact of the recent rise in interest rates on job creation and other economic factors is difficult to gauge and creates uncertainty as to whether these trends will continue. Some reports have forecasted that interest rates will continue to rise and housing sales and new housing starts have begun to slow down in 2006. This slow down could increase marketing spending on the internet and provide us with opportunities for revenue growth.

Evolution of Our Product and Service Offerings and Pricing Structures.

Real Estate Services segment: Our Real Estate Services segment evolved as a business providing Internet applications to real estate professionals. In recent years, it became apparent that our customers valued the media exposure that the Internet offered them, but not all of the technology that we were offering. Many of our customers objected to our proposition that they purchase our templated web site in order to gain access to our networks. In addition, we were charging a fixed price to all customers regardless of the market they operated in or the size of their business. Our Top Producer® product was a desktop application that required some knowledge of the operations of a desktop computer.

In 2003, we responded to our customers needs and revamped our service offerings. We began to price our services based on the size of the market and the number of properties the customer displayed. For many of our customers this change led to substantial price increases over our former technology pricing. This change has been reasonably well-accepted by our customers.

In late 2002, Top Producer® introduced a monthly subscription model of an online application. This had a negative impact on our revenues over the first eighteen months of this offering as we attempted to build the subscriber base. While our desktop product was still attractive to some real estate professionals, our customer base has shifted to the online application which will completely replace our desktop product by the end of fiscal 2006.

Move-Related Services segment: The uncertain economic conditions from early 2001 through 2003 had an adverse effect on our Welcome Wagon® business. Our primary customers are small local merchants trying to reach new movers and economic conditions have negatively impacted the small business more than other businesses. These economic conditions have caused a decline in our revenue in this segment from 2002 to 2005. We are starting to see some improvement in market conditions in some geographic areas, but it could take considerable time before this segment yields meaningful growth, if at all.

Investment Strategy: We have made substantial investments in our business in recent years in order to improve our ability to bring consumers and advertisers together. As a result of our greater understanding of both consumer and customer needs, we have concluded that we need to demonstrate strong capabilities in four core