

HOMESTORE COM INC  
Form 10-Q  
August 12, 2002

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

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**FORM 10-Q**

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

**For the Quarter Ended June 30, 2002  
OR**

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

**For the Quarter Ended June 30, 2002**

**Commission File Number 000-26659**

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**Homestore, 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)

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

Yes  No

At July 31, 2002 the registrant had 117,912,878 shares of its common stock outstanding.

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## INDEX

	<u>Page</u>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1.	Consolidated Financial Statements
	Homestore, Inc. Consolidated Financial Statements
	Consolidated Balance Sheets 1
	Unaudited Consolidated Statements of Operations 2
	Unaudited Consolidated Statements of Cash Flows 3
	Notes to Unaudited Consolidated Financial Statements 4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 54
<b>PART II OTHER INFORMATION</b>	
Item 1.	Legal Proceedings 54
Item 2.	Changes in Securities and Use of Proceeds 56
Item 3.	Defaults Upon Senior Securities 56
Item 4.	Submission of Matters to a Vote of Security Holders 56
Item 5.	Other Information 57
Item 6.	Exhibits and Reports on Form 8-K 57
	SIGNATURES 58

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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## HOMESTORE, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2002	December 31, 2001
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 64,857	\$ 38,272
Short-term investments		14,190
Marketable equity securities	494	2,432
Accounts receivable, net	31,363	31,906
Current portion of prepaid distribution expense	30,038	48,793
Other current assets	25,174	43,743
	<u>151,926</u>	<u>179,336</u>
Total current assets	151,926	179,336
Prepaid distribution expense, net of current portion	28,527	35,007
Property and equipment, net	33,284	44,759
Goodwill, net	24,600	107,769
Intangible assets, net	95,510	143,002
Restricted cash	151,205	98,519
Other assets	13,092	6,645
	<u>498,144</u>	<u>615,037</u>
Total assets	\$ 498,144	\$ 615,037
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,560	\$ 14,667
Accrued expenses	77,070	111,701
Accrued litigation settlement	23,000	
Deferred revenue	42,970	62,988
Deferred revenue from related parties	16,646	31,198
	<u>165,246</u>	<u>220,554</u>
Total current liabilities	165,246	220,554
Distribution obligation	212,060	204,660
Deferred revenue from related parties	8,903	5,772
Other liabilities	214	795
	<u>386,423</u>	<u>431,781</u>
Total liabilities	386,423	431,781
Commitments and contingencies (Note 13)		
Stockholders equity:		
Convertible preferred stock		
Common stock	118	117
Additional paid-in capital	1,990,690	1,987,405
Treasury stock	(18,062)	(18,062)
Notes receivable from stockholders	(229)	(3,569)
Deferred stock-based charges	(5,055)	(11,692)

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Accumulated other comprehensive loss	(1,300)	(3,568)
Accumulated deficit	(1,854,441)	(1,767,375)
	<u>          </u>	<u>          </u>
Total stockholders' equity	111,721	183,256
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 498,144	\$ 615,037
	<u>          </u>	<u>          </u>

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

## HOMESTORE, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue (including non-cash equity charges, see note 10)	\$ 58,225	\$ 69,067	\$ 121,392	\$ 130,408
Related party revenue	7,669	8,633	18,618	11,110
<b>Total revenue</b>	<b>65,894</b>	<b>77,700</b>	<b>140,010</b>	<b>141,518</b>
Cost of revenue (including non-cash equity charges, see note 10)	21,346	33,351	43,546	61,156
<b>Gross profit</b>	<b>44,548</b>	<b>44,349</b>	<b>96,464</b>	<b>80,362</b>
Operating expenses:				
Sales and marketing (including non-cash equity charges, see Note 10)	40,858	62,517	88,735	121,316
Product and website development (including non-cash equity charges, see note 10)	9,657	8,680	17,821	14,164
General and administrative (including non-cash equity charges, see note 10)	21,780	30,676	46,920	53,043
Amortization of goodwill and intangible assets	9,161	54,631	18,524	88,394
Litigation settlement (see note 16)	23,000		23,000	
Acquisition, restructuring and other one-time charges (see note 6)	(459)	8,567	1,342	15,632
<b>Total operating expenses</b>	<b>103,997</b>	<b>165,071</b>	<b>196,342</b>	<b>292,549</b>
Loss from operations	(59,449)	(120,722)	(99,878)	(212,187)
Interest income, net	909	3,768	1,448	8,219
Other income (expense), net	(3,896)	(3,914)	339	(16,710)
Loss from continuing operations	(62,436)	(120,868)	(98,091)	(220,678)
Gain on disposition of discontinued operations	10,179		10,179	
Income from discontinued operations (see note 4)			846	
<b>Net loss</b>	<b>\$ (52,257)</b>	<b>\$ (120,868)</b>	<b>\$ (87,066)</b>	<b>\$ (220,678)</b>
Unrealized gain (loss) on marketable securities	(135)	(678)	2,047	(2,580)
Foreign currency translation	(199)	664	221	347
<b>Comprehensive loss</b>	<b>\$ (52,591)</b>	<b>\$ (120,882)</b>	<b>\$ (84,798)</b>	<b>\$ (222,911)</b>
Basic and diluted income (loss) per share (see note 11):				
Continuing operations	\$ (0.53)	\$ (1.12)	\$ (0.83)	\$ (2.18)
Discontinued operations	\$ 0.09	\$	\$ 0.09	\$

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Net loss	\$ (0.44)	\$ (1.12)	\$ (0.74)	\$ (2.18)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Shares used to calculate basic and diluted per share amounts	117,825	107,695	117,696	101,345
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

## HOMESTORE, INC.

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Six Months Ended June 30,	
	2002	2001
<b>Cash flows from operating activities:</b>		
Loss from continuing operations	\$(98,091)	\$(220,678)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	7,567	10,193
Amortization of goodwill and intangible assets	18,524	88,394
Accretion of distribution obligation	7,406	7,406
Provision for doubtful accounts	5,569	6,068
Acquisition and restructuring charges	260	
Stock-based charges	36,995	41,240
Write-down of investments		11,592
Other non-cash items	5,737	1,535
Changes in operating assets and liabilities, net of acquisitions and discontinued operations:		
Accounts receivable	(6,991)	(23,368)
Prepaid distribution expense	5,912	4,703
Other assets	2,472	1,811
Accounts payable and accrued liabilities	(28,908)	30,119
Deferred revenue from related parties	(11,421)	53,353
Deferred revenue	2,107	(4,489)
Net cash provided by (used in) continuing operating activities	<u>(52,862)</u>	<u>7,879</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(647)	(29,352)
Purchases of short-term investments		(66,317)
Proceeds from sale of marketable equity securities	1,737	
Maturities of short-term investments	14,394	90,492
Acquisitions, net of cash acquired		(52,392)
Net cash provided by (used in) investing activities	<u>15,484</u>	<u>(57,569)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from payment of stockholders' notes	3,340	1,710
Proceeds from exercise of stock options, warrants and share issuances under employee stock purchase plan	588	46,780
Repayment of notes payable		(481)
Settlement of a stock issuance obligation	(521)	
Transfer to restricted cash	(2,863)	
Issuance of notes receivable		(3,750)
Net cash provided by financing activities	<u>544</u>	<u>44,259</u>
Net cash used in continuing operations	<u>(36,834)</u>	<u>(5,431)</u>
Net cash provided by discontinued operations (net of restricted cash)	<u>63,419</u>	

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Change in cash and cash equivalents	26,585	(5,431)
Cash and cash equivalents, beginning of period	38,272	167,576
	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 64,857	\$ 162,145
	<u>          </u>	<u>          </u>

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

**HOMESTORE, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS:**

Homestore, 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 websites and number of property listings. Through its network of websites, the Company provides a wide variety of information and tools for consumers, and is the leading supplier of online media and technology solutions for real estate industry professionals, advertisers and providers of home and real estate-related products and services. To provide consumers with real estate listings, access to real estate professionals and other home and real estate-related information and resources, the Company has established relationships with key industry participants. These participants include real estate market leaders such as the National Association of REALTORS® ( NAR ), the National Association of Home Builders ( NAHB ), the largest Multiple Listing Services ( MLSs ), the NAHB Remodelers Council, the National Association of the Remodeling Industry ( NARI ), the American Institute of Architects ( AIA ), the Manufactured Housing Institute ( MHI ), real estate franchises, brokers, builders, apartment managers and agents. The Company also has distribution agreements with a number of leading Internet portal and search engine websites, 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 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 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, 2001 filed with SEC on April 3, 2002. 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.

Since inception, the Company has incurred losses from operations and has reported negative operating cash flows. As of June 30, 2002, the Company had an accumulated deficit of \$1.9 billion and cash equivalents of \$64.9 million. The Company has no material financial commitments other than those under operating lease agreements and distribution and marketing agreements. The Company believes that its existing cash and cash equivalents and any cash generated from operations, coupled with the Company's cost reduction efforts, will be sufficient to fund its working capital requirements, capital expenditures and other obligations through at least the next 12 months. Long term, the Company may face 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 its obligations 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, it may need to raise additional capital through public or private financing, strategic relationships or other arrangements. This additional capital, if needed, might not be available on terms acceptable to the Company, or at all. If additional capital were raised through the issuance of equity securities, the percentage of the Company's stock owned by its then-current stockholders would be reduced. Furthermore, these 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 13 to its Consolidated Financial Statements included herein.

**HOMESTORE, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. RECENT ACCOUNTING DEVELOPMENTS:**

In June 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( 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 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.

The Company adopted SFAS No. 142 in January 2002, accordingly amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 has ceased, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS No. 141 have been reclassi