MOVE INC
Form 10-K/A
November 07, 2006

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

**Form 10-K/A**
**Amendment No. 3**
**to**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2005**

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)* |

**Registrant s telephone number, including area code:**
**(805) 557-2300**

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $.001 per share | The NASDAQ Stock Market LLC |
| Warrants to purchase Common Stock, par value $.001 per share | The NASDAQ Stock Market LLC |

**Securities Registered Pursuant to Section 12(g) of the Act:**
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

| | |
|---|---|
| Aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2006* | $ 658,409,500 |
| Number of shares of common stock outstanding as of October 31, 2006 | 152,328,161 |

* Based on the closing price of the common stock of $5.48 per share on that date, as reported on The NASDAQ Stock Market LLC and, for purposes of this computation only, the assumption that all of the registrant s directors, executive officers and beneficial owners of 10% or more of the registrant s common stock are affiliates.

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## EXPLANATORY NOTE

Move, Inc. (the Registrant ) is filing this Amendment No. 3 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, originally filed on March 13, 2006 (the Original 10-K ), solely to revise Exhibit 32.02, the certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002, which inadvertently referenced Form 10-Q, and not Form 10-K, for the period ended December 31, 2005. As requested by the Securities and Exchange Commission, the Registrant is filing the complete text of the Original 10-K and exhibits 23.01, 31.01, 31.02, 32.01 and 32.02 in their entirety in this Amendment No. 3 on Form 10-K/A to reflect the above changes. We have not updated the information in this Form 10-K/A to speak as of a date after the filing of our Original 10-K, and this Form 10-K/A does not amend or update the information in such report in any way other than to give effect to the amendments described above.

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**HOMESTORE, INC.**

**FORM 10-K**
**For the Fiscal Year Ended December 31, 2005**

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*This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on our current expectations, estimates and projections about our industry, beliefs, and certain assumptions made by us. Words such as believes, anticipates, estimates, expects, projections, may, potentia continue and words of similar import constitute forward-looking statements. The forward-looking statements contained in this report involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by these statements. These factors include those listed under Risk Factors, Business, and elsewhere in this Form 10-K, and the other documents we file with the Securities and Exchange Commission, or SEC, including our reports on Form 8-K and Form 10-Q, and any amendments thereto. Other unknown or unpredictable factors also could have material adverse effects on our future results. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date of this Annual Report. We cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not place undue reliance on these forward-looking statements. Finally, we expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.*

# PART I

## Item 1. *Business.*

Homestore, Inc. ( Homestore or we ) has 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 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 we sell architects home plans to consumers considering building a new home. We have announced our intention to change our name to Move, Inc., subject to approval by our shareholders at the next annual meeting.

Our primary consumer web sites include REALTOR.com®, the official site of the National Association of Realtors (the NAR ); HomeBuilder.com®, the official new home listing site of the National Association of Homebuilders (the NAHB ); RENTNET®, an apartment, corporate housing and self-storage resource; SeniorHousingNet™.com, a comprehensive resource for seniors; and Homestore.com®, a home information resource site with an emphasis on content related to mortgage financing, moving and storage, and home and garden activities. During the second quarter of 2006, we intend to launch Move.com™ as a real estate listing and move-related search site. Shortly after its launch, Move.com™ will replace HomeBuilder.com®, RENTNET® and Homestore.com® and we will begin promoting those web sites under the MOVE brand.

The market opportunity for advertising and marketing solutions reaching consumers during their move cycle is very large. Real estate professionals currently spend approximately $9 billion per year on marketing their products and services to apartment hunters, home buyers and home sellers. Other advertisers spend in excess of $11 billion per year seeking to promote their services or products to consumers during the move cycle. Historically, these advertisers have chosen traditional methods of marketing to pre- and post-move consumers including classified and display advertisements in newspapers and other publications, direct mail, and billboards and other signage. These methods do not allow for interactivity and may use data that is incomplete or outdated. Additionally, these methods reach consumers only within specific local markets and are often distributed on a weekly or less frequent basis.

Consumers have embraced the Internet as an essential resource in their home search and moving process, perhaps in response to the inherent limitations in presenting real estate and other move-related advertising in print. According to the NAR, more than 77% of recent home buyers utilize the Internet in their home search. The Internet overcomes many of the limitations of traditional offline marketing by providing consumers with access to detailed, searchable information that is frequently updated. Despite the migration of move-oriented consumers to the Internet, to date, very little of the annual advertising spending that we identify as our market opportunity has actually moved from traditional advertising venues to the Internet.

There are several factors that we believe will accelerate the shift of advertising spending away from traditional media toward online resources such as our sites. First, less robust selling conditions may encourage real estate professionals to modify their historical marketing practices. Second, we expect the products we have recently announced to provide advertisers more flexibility in choosing how to promote their listings or their business. In addition, we expect the products we have recently announced to better align our revenue opportunity with performance of our advertising solutions. Finally, the maturation of the online marketing industry has introduced new participants to our prospective customers, serving to increase overall awareness of the efficacy of online marketing.

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 areas: size and quality of consumer audience, depth and breadth of content, enduring industry relationships and scalable business models. We recently announced significant changes to our branding, product and pricing strategies to better align our solutions with these core competencies. These new strategies include:

Consolidating branding under the REALTOR.com®, Move.com™ and Welcome Wagon® brands to allow us to enhance consumer awareness of our services and prevent us from being as dependent on third parties for traffic to our sites.

Introducing vertical search technologies to our new home and apartment listing search results to provide consumers with substantially more selection.

Adding community and user-generated content to REALTOR.com® to provide additional content for consumers, which we believe will provide a contextually relevant online venue to introduce non-real estate advertisers, and enable REALTORS® to further differentiate their local market expertise.

Introducing cost-per-click (performance-based) advertising to our sites to enable better monetization of site activity for ourselves and for a growing number of traffic partners.

Integrating Welcome Wagon® offerings into REALTOR.com® in two ways. First, we will enable REALTORS® to offer a co-branded version of our new mover gift directly to consumers earlier in the move cycle. Second, we will integrate Welcome Wagon® s Local Business Directory into new community pages within REALTOR.com® to increase consumer awareness of special offers available to movers through Welcome Wagon®.

Integrating the acquisition of Moving.com, which is discussed below, to extend our consumer tools to include access to moving, self-storage and truck rental price quotes from qualified professionals.

To better reflect the way we are managing our business, we have revised our reporting business segments to include these two segments: Real Estate Services for our advertising and software solutions offered to real estate industry professionals trying to reach prospective movers and manage those client relationships; and Move-Related Services for our advertising products and lead-generation solutions offered to non-real estate advertisers trying to reach consumers at any stage of the move cycle.

We were incorporated in the State of Delaware in 1993 under the name of InfoTouch Corporation, or InfoTouch. In February 1999, we changed our corporate name to Homestore.com, Inc. In May 2002, we changed our name to Homestore, Inc. We have announced our intention to change our name to Move, Inc., subject to approval by our shareholders at the next annual meeting. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for a further description of our history. Our corporate headquarters are in Westlake Village, California.

**Our Operating Segments**

In the fourth quarter of 2005, we realigned our business to ensure that each of our products and services directly support our new strategy and our target markets. We now operate under two business segments: Real Estate Services and Move-Related Services, which for the year ended December 31, 2005 represented approximately 72% and 28% of our revenue, respectively.

*Real Estate Services.* Real Estate Services consists of products and services that promote and connect real estate professionals to consumers through our REALTOR.com®, HomeBuilder.com®, RENTNET® and SeniorHousingNet™.com web sites, in addition to our customer relationship management applications for

REALTORS® offered through our Top Producer® business. Our revenue is derived from a variety of advertising and software services, including enhanced listings, company and property display advertising, customer relationship management applications and web site sales. These solutions have traditionally been offered on a subscription basis.

*Move-Related Services.* Move-Related Services consists of advertising products and lead generation tools including display, text-link and rich media advertising positions, directory products, price quote tools and content sponsorships on Homestore.com® and other related sites. In addition, it includes our Welcome Wagon® new-mover direct mail advertising products and sales of new home plans and related magazines through our Homestore Plans and Publications business.

### Key Characteristics

We believe there are several characteristics of our business that help distinguish Homestore from other real estate media and technology companies. These characteristics include the size and quality of our consumer audience traffic, the comprehensive content we offer on our web sites, the strength and depth of our real estate industry relationships, and the scalability of our business models.

***Size and Quality of Consumer Audience Traffic***

Collectively, the Homestore network of web sites attracts approximately 9.3 million unique users per month, according to January 2006 data obtained from third-party Internet traffic auditor, comScore Media Metrix. The typical visitor to the Homestore network visits us more than two times per month and spends approximately 29 minutes per month on our sites. Individually, REALTOR.com®, our flagship site, is the Internet s No. 1 real estate site with approximately 6.3 million unique users recorded in January 2006, according to comScore. REALTOR.com® visitors spend a great deal of time browsing home listings approximately 36 minutes per unique user in a typical month. HomeBuilder.com® is one of the leading Internet destinations for gathering information and contacting homebuilders related to newly constructed and to-be-built homes, having attracted approximately 690,000 unique users in January 2006. RENTNET® is a leading apartment web site, having attracted approximately 2.1 million unique users in January 2006. Homestore.com®, which comprises all of our consumer traffic not directed to one of our three largest property sites, attracted approximately 1.8 million unique users in January 2006.

We are the exclusive provider of REALTOR® represented existing homes, new homes and apartment listings across America Online, including AOL, AOL.com, Netscape, CompuServe and AOL City Guide, The Microsoft Network, or MSN, and a provider of new homes and apartment listings on YAHOO!. Other significant portal relationships for the Homestore network include The IAC Network, Inc., including Excite.com and iWon.com, Internet Broadcast Systems, Inc. and its web sites for 61 local and network-affiliated TV stations, and United Online through its NetZero and Juno brands.

***Content***

*REALTOR.com®*. The REALTOR.com® web site offers consumers a comprehensive suite of services, tools and content for all aspects of the residential real estate transaction. The REALTOR.com® web site includes a directory of approximately 1.2 million REALTORS® to help guide buyers and sellers through the real estate transaction process. For buyers, there is a searchable database of approximately 2.7 million existing homes for sale. For sellers, there are tools and information about understanding the value of their home, preparing the home for sale, listing and advertising the home and completing the sale. We receive listing content from almost 900 Multiple Listing System s ( MLS s ) across the United States. Our property listings typically provide information that is more detailed and timely than the information included in other media channels, such as newspaper classified advertisements and print magazines. In addition, we offer consumers information and tools on mortgages, home affordability, the offer process, applying for a loan, closing the purchase, planning the move and neighborhood profiles.

*HomeBuilder.com®*. The HomeBuilder.com® web site currently offers consumers a resource for information on builders as well as information on newly built homes and housing plans. We aggregate information on new and model homes for sale throughout more than 6,500 new home communities and planned developments throughout the United States. Home buyers can browse through our database under three types of search queries: new homes, builders and manufactured homes. In addition to offering this information, we also provide consumers with community profiles and the ability to send detailed requests to builders via electronic mail, telephone or fax for further information on particular properties. With the launch of Move.com[tm] in the second quarter of 2006, we expect to significantly increase the new home content we offer to consumers.

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*RENTNET®.* The RENTNET® web site currently provides consumers with a large and comprehensive rental housing database. As of December 31, 2005, our rental housing database consisted of more than 35,000 properties. Our database also includes corporate housing and self storage listings. We also provide consumers with information relating to moving services, renter s insurance and neighborhood profiles. Additionally, consumers can create personalized moving checklists and receive email reminders. With the launch of Move.com™ in the second quarter of 2006, we expect to significantly increase the rental-related content we offer to consumers.

*SeniorHousingNet™.com.* Our Senior Housing web site offers a database of senior housing listings, independent living, assisted living, nursing homes, continuing care and alzheimer s care. The channel also contains content, tools and guides to assist users in selecting suitable housing and care types, together with information on health and wellness.

*Homestore.com®.* As a complete home-information resource, Homestore.com® offers a wide range of content on a variety of home related topics including mortgage financing, moving, and home and garden. The site utilizes content prepared by our in-house editorial staff as well as information obtained and displayed through third-party relationships. The Homestore.com® site is organized into three primary channels:

> *Homestore Home Finance.* Our Home Finance channel contains information and decision support tools that help consumers understand and satisfy their home financing and mortgage needs. A variety of content, tools, and interactive guides are available to help consumers with mortgages, loans, credit, insurance, legal matters and taxes. Additionally, consumers have access to our Find a Lender directory, which provides access to a variety of lending professionals.
>
> *Homestore Moving.* Our Moving channel contains content, tools and interactive guides for consumers moving to new homes or relocating to another community. We also offer a database of self-serve storage locations across the country. These resources provide movers with custom moving quotes and other resources necessary for making moving decisions, such as salary calculators, school reports and neighborhood information.
>
> *Homestore Home & Garden.* Our Home & Garden channel is an online resource for consumers seeking to make improvements to their existing home, including remodeling, home improvement, landscaping and home maintenance needs. It provides an online resource for consumers seeking decorating ideas and information. The channel includes information for planning, budgeting and visualizing options, as well as specific advice on a room-by-room basis. The channel is designed to help consumers locate qualified professionals as well as provide them with do-it-yourself information.

During the second quarter of 2006, we intend to launch Move.com™ as a real estate listing and move-related search site. Shortly after its launch, Move.com™ will replace HomeBuilder.com®, RENTNET® and Homestore.com® and we will begin promoting those under the MOVE brand.

***Industry Relationships***

To provide consumers with timely and comprehensive 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 NAR; the NAHB; hundreds of MLS s; the Manufactured Housing Institute, the MHI; and leading real estate franchisors, including the six largest franchises, brokers, builders and apartment owners and managers. Under our agreement with NAR, we operate NAR s official web site, REALTOR.com®. Under our agreement with NAHB, we operate NAHB s official web site, HomeBuilder.com®. Under our agreements with NAR, NAHB, and MHI we receive preferential promotion in their marketing activities. REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of NAR and subscribe to its code of ethics.

*National Association of REALTORS®*. The NAR is the largest trade association in the United States that represents real estate professionals. NAR consists of residential and commercial real estate professionals, including brokers, agents, property managers, appraisers, counselors and others engaged in all aspects of the real estate industry. NAR had approximately 1.2 million members as of December 31, 2005.

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*National Association of HomeBuilders.* The NAHB is the second-largest real estate trade association in the United States. As of December 31, 2005, NAHB had approximately 225,000 members. Approximately one-third of NAHB s members are homebuilders and/or remodelers and the remainder work in closely related fields within the residential real estate industry such as mortgage, finance, building products and building services, including subcontractors.

*Manufactured Housing Institute.* The MHI is a nonprofit national trade association representing all segments of the manufactured and modular housing industries, including manufactured home producers, retailers, developers, community owners and managers, suppliers, insurers and financial service providers. As of December 31, 2005, the MHI had approximately 315 corporate members, and 53 state and regional associated members.

*Multiple Listing Services.* MLS s operate networks that provide real estate professionals with listings of properties for sale and are typically regulated by a governing body of local brokers and/or agents. There are approximately 900 MLS s nationwide that aggregate local property listings by geographic location.

***Scalable Business Models***

Most of our revenue is derived from subscription-based services that allow our customers to easily budget for our services. These subscriptions typically have one year terms. Although we have been able to achieve price increases in recent years for many of our subscription products, the impact on our revenue is only gradually recognized after all customers renew their contracts over the course of a year. With the proliferation and general acceptance of many types of performance-based pricing for online marketing business models, including cost-per-lead, cost-per-click and cost-per acquired customer, we are in the process of broadening our offerings to include more performance-based solutions.

When we introduce our new Move.com™ web site and its vertical search capability, we expect to provide Featured Listings and text-based advertising on a cost-per-click basis. These new advertising solutions will appear on both Move.com™ and REALTOR.com®. The recently launched Top Marketer™ lead generation product for real estate agents and the recently acquired Moving.com business, which includes cost-per-lead solutions for moving quotes, truck rentals and self-storage facilities, will also increase the range of pricing alternatives available to our customers. In some instances, these new pricing solutions will allow us to establish competitive bidding for a particular placement. Performance-based advertising and marketing solutions also increase our flexibility in structuring relationships with potential distribution providers because they provide a more transparent means for compensating these partners for their traffic.

Even with these new pricing models available, we still expect a majority of our revenue to be derived from subscription based products. See Note 12, Segment Information, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K for financial information by segment. Our sales force consists of a combination of internal phone-based associates and field sales personnel.

**Products and Services**

***Real Estate Services Segment***

Our Real Estate Services segment provides marketing and web site solutions that allow real estate professionals to reach and connect with a highly targeted potential customer audience represented by the consumer traffic on our web sites. We do this by allowing our customers to personalize the personal, corporate and property listing information contained on our web sites and by allowing our customers to connect their personal or corporate web site directly to our database of property information, our professional directories and to traditional Internet advertising products such as banner ads.

Our services enable real estate professionals to manage their online content and branding presence through a personal or corporate web site, and to use our listing enhancements such as multiple photos, virtual tours and printable brochures. We also enable real estate professionals to market themselves and their properties directly to potential buyers whose search criteria match a set of listing criteria specified by the real estate professional. We also design, host, and maintain personal and corporate web sites for real estate professionals.

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Because of our focus on home and real estate-related information, we believe our web sites draw an attractive national target audience for advertisers and providers of home-related products and services. The vertical search capability that we expect to launch in the new home and rental categories should allow us to improve the consumer experience and lead to an expanded audience.

In the second quarter of 2006, we plan to change our service offering to other real estate professionals, principally homebuilders and rental property owners. Prior to this change, our HomeBuilder.com® and RENTNET® web sites included only content that was paid for by our customers. In some markets this led to a poor consumer experience as there was limited content on our site relative to all the offerings in that particular market. The number of competitors fighting for the same customer on a paid inclusion basis made it virtually impossible for a consumer to go to any single web site and see all properties in a given market.

With the introduction of our new vertical search capability, we will aggregate content from multiple web sites based on the criteria established by the consumer and will display much more inclusive content in response to their search. Some of this content will be from paying customers, who will pay us for sponsored listings, but it will be aggregated with free content to benefit the consumer and be responsive to their needs. We believe that this improved consumer experience, coupled with our branding of Move.com™, will drive more consumers to our sites and make our properties more attractive for all advertisers attempting to reach new movers. We will continue to offer a variety of services to our customers including classified advertising, display advertising, directory listings, web site services and software.

*Classified Advertising.* We offer a number of classified advertising opportunities throughout our network of web sites, primarily in the form of property listing enhancements on our web sites. A major service offering for real estate agents and brokers is the enhancement of property listings. As the official web site of the NAR, we present basic MLS property listings on the REALTOR.com® web site at no charge to NAR members. For a fee, we offer our professional customers the ability to enhance their listings by adding their own personal promotion in the forms of custom copy, photographs, text effects, links to their home page and more. Our listing enhancement product represented approximately 22%, 19% and 18% of our total revenue for fiscal years 2005, 2004 and 2003, respectively. We plan to offer enhanced listings to homebuilder and rental customers in the second quarter of 2006. As a separate listing enhancement product to the REALTOR.com® suite of services, Homestore offers two virtual tour solutions. Hometour360® allows customers to create, host and distribute media rich virtual tours powered by industry leading image technologies IPIX and iseemedia. The PicturePath® Link solution allows other virtual tour products, purchased by our customers, to be distributed to REALTOR.com® in their full featured format. Our primary service for rental, corporate housing and senior housing property owners and managers is an online brochure displayed on our RENTNET® web site. This online brochure product represented approximately 10%, 12% and 14% of our total revenue for fiscal years 2005, 2004 and 2003, respectively. We also offer a similar service to our homebuilder customers for display on our HomeBuilder.com® web site. Our online brochures include property photos, floor plan images, virtual tours, unit descriptions, community descriptions, interactive mapping, driving directions and links to property owners or managers web sites. A variety of enhancements are also available to assist in increasing the visibility of specific properties to our online audience. With the introduction of our new vertical search capability on Move.com™, we expect to provide some services on a cost per click basis, but will still receive a majority of our revenue from subscription based products.

*Display Advertising.* A variety of online display advertising in the form of banners, vertical skyscraper ads, and other Internet Advertising Bureau, the IAB, standard ad sizes can be purchased for placement throughout the Homestore network of web sites by companies or individuals wishing to reach the largest and most targeted real estate-oriented audience. While companies currently make up the majority of our display advertising customers, we also offer a number of unique display advertising opportunities to individual real estate professionals to brand themselves online to consumers in their local market. Advertisers can also purchase custom advertising units on our web sites, including text-based links and rich media products. We offer advertisers branding and lead generation opportunities on both fixed and variable bases, with most of our advertising relationships tied to audience size.

We offer the following display advertising products: (i) Featured Homes$^{tm}$ allows our REALTOR® customers to more prominently display their property listings with priority on the REALTOR.com® web site during geographically targeted property searches by consumers; (ii) Featured Agent$^{tm}$ allows agents to promote themselves and their services on REALTOR.com® to a geographically targeted real estate audience; (iii) Featured Company™ allows brokers to promote themselves and their services to a geographically targeted real estate audience on REALTOR.com®; (iv) Featured Builder™ allows builders to promote themselves and their services to a geographically targeted real estate audience on HomeBuilder.com®; (v) Sponsorships allow advertisers to maximize their exposure on our web sites by featuring fixed buttons or other prominent placements on certain pages on our web sites, presenting users with the opportunity to click-through directly to the advertiser s site and may also include other advertising components such as content or online advertisements; and (vi) Featured Community allows agents to promote themselves and their community on REALTOR.com® to a geographically targeted real estate audience.

*Directory Listings.* Advertisers can purchase placement in our online directories. Our network of web sites includes directories of REALTORS®, homebuilders, lenders, and self-service storage facilities. We believe our directory services offer advertisers the opportunity to reach qualified consumers based upon the targeted audience that visits our web sites and are a cost-effective way for professionals to generate leads from online consumers.

*Web sites.* Our web site service is comprised of templated and custom web sites for individuals as well as companies. We build web sites based either on an á la carte features and functionality basis or bundled with pre-selected features based on industry segments, including web sites designed specifically for REALTORS®, brokers, builders and manufactured housing retailers. For customers seeking web sites with specialized features and expanded functionality, we design and build customized web sites. In addition to the design and set-up of the web sites, we also offer hosting and maintenance services. One Place™ is a suite of services, including a web site, that integrates with an interactive voice response system that is linked to a pager network. One Place™ enables REALTORS® to be paged when a potential home buyer or home seller submits an inquiry about a specific property listing. Additionally, if a prospective buyer contacts the REALTOR® after viewing a for sale sign, the interactive voice response system will provide the consumer with details about the property and then page the REALTOR® with a notification of the caller s telephone number and the property listing for which the consumer has inquired.

*Software.* Our Top Producer® product, which provides software solutions and related services to real estate professionals, is the leading client management and marketing software specific to real estate agents. Top Producer® s line of desktop and web-based applications features client management, appointment and task scheduling, Internet lead distribution and follow-up, prospecting automation, comparative market analysis, customer presentations and mobile data synchronization for Palm devices and notebook computers. Products are co-branded for some of the country s largest franchise brands, such as Keller Williams, RE/MAX, Century 21, Coldwell Banker, ERA, and GMAC. Our Top Producer® business has also developed proprietary applications to enhance the productivity and profitability of real estate professionals. We are continually attempting to add functionality and features to our applications, including integration with our leading consumer web sites. We believe that our ability to assist real estate professionals in managing relationships with their customers enables us to better distinguish the value of our media properties.

The Top Producer® software was sold exclusively as a desktop application until the fourth quarter of 2002. Our historical Top Producer® desktop products reached an installed customer base of more than 100,000 agents. Top Producer® is now offered as an online application that is purchased through a monthly or annual subscription. We currently have over 60,000 subscribers to this service.

***Move-Related Services Segment***

*Direct Mail.* Welcome Wagon® offers local and national merchants the opportunity to reach movers through targeted direct mail services. Welcome Wagon® s New Mover Program integrates local merchant advertiser information into a welcome gift delivered through the mail to new homeowners shortly after their move. The welcome gift contains a customized neighborhood address book with exclusive merchant advertiser listings as well as coupons and special offers from local advertisers. Additionally, local advertisers receive the names and contact information of the new homeowners in their selected area that have received the welcome gift. This allows local merchants the opportunity to continue to build their relationship with these new homeowners through their own direct marketing initiatives. The Welcome Wagon® gift book represented approximately 12%, 14% and 15% of our total revenue for fiscal years 2005, 2004 and 2003, respectively. Additionally, Welcome Wagon® offers local merchants solo marketing opportunities through its Pinpoint Mail product, which is sold on a per mailing basis. Launched in the fourth quarter of 2004, Welcome Wagon® s Early Advantage™ product is a shared direct mail product for advertisers to reach new movers at their existing addresses prior to their actual move.

*Retail Advertising.* Because our web sites attract a significant number of consumers that are contemplating a real estate transaction or a move, we believe that we provide businesses such as mortgage companies, home improvement retailers and moving service providers with an efficient way to find and communicate with their potential customers.

*Homestore Plans and Publications.* Homestore Plans and Publications offers both consumers and building professionals the ability to browse, select, modify and purchase new home designs and project plans from one of the largest selections of home plans and project plans available. Homestore Plans and Publications has business relationships with many designers that provide us the right to sell the designers home plans directly to consumers and building professionals. These plans are sold through magazines that are distributed at leading retailers and newsstands nationwide and through our web site, Homeplans.com. The Internet has become an increasingly important channel of distribution for the sale of home plans, and our Homeplans web site is one of the most heavily trafficked web sites in the home plans category, distributing its home plan content through approximately 400 affiliate partner sites.

## Competition

We face competition in each segment of our business.

### *Real Estate Services Segment*

We compete with a variety of online companies and web sites providing real estate content that sell classified advertising opportunities to real estate professionals and sell display advertising opportunities to other advertisers, including real estate professionals, seeking to reach consumers interested in products and services related to the home and real estate. We also compete with web sites that attract consumers by offering rebates for home purchases or rental leases, and then charge the real estate professional who performed the transaction a referral fee for the introduction. However, these sites generally have a limited amount of real estate content and an even more limited directory of qualified REALTORS®. Other online competitive models include pure lead generation models and paid search models.

Our primary competitors for online real estate advertising dollars include Lending Tree (a division of InterActiveCorp), HouseValues.com, AgentConnect.com (a division of Next Phase Media, Inc.), and HomeGain.com, Inc. In addition, RENTNET® faces competition from ApartmentGuide.com, Rent.com, ForRent.com and Apartments.com, and our HomeBuilder.com® web site competes directly with NewHomeGuide.com and NewHomeSource.com. Our Homestore.com® web site also faces competition from general interest consumer web sites that offer home, moving and finance content, including ServiceMagic, Inc. (a division of InterActiveCorp) and Gigamoves (a newly formed division of eBay).

Newspapers and home/apartment guide publications are the two primary offline competitors of our media offerings. We compete with newspapers and home/apartment guide publications for the advertising dollars spent by real estate professionals to advertise their offerings. Although more than 77% of all home buyers use the Internet to search for homes (according to the NAR), real estate professionals currently spend only a small percentage of their marketing budget to display their listings on the Internet. In addition, newspapers and the publishers of home/apartments guides, including Classified Ventures, Inc., PRIMEDIA Inc., and Network Communications Inc., have extended their media offerings to include an Internet presence. We must continue to work to shift more real estate advertising dollars online if we are to successfully compete with newspapers and real estate guides.

Our Top Producer® business faces competition from Fidelity National Information Solutions, Inc. which offers competing solutions to real estate professionals. Top Producer® also competes with horizontal Customer Relationship Management offerings such as: Microsoft Corporation s Outlook solution, Best Software, Inc. s ACT! solution, and FrontRange Solution, Inc. s GoldMine product. Some providers of real estate web site solutions, such as A La Mode, Inc., are also offering contact management features which compete with products from Top Producer®. Certain Internet media companies such as HomeGain.com, Inc. and HouseValues, Inc. are providing drip marketing solutions that incorporate aspects of lead management, which, over time, could pose a competitive threat to Top Producer®.

***Move-Related Services Segment***

Our Welcome Wagon® business competes with numerous direct marketing companies that offer advertising solutions to local and national merchants. Competitors include Imagitas, Inc., ADVO, Inc., Valpak Direct Marketing Systems, Inc., Pennysaver and MoneyMailer, LLC. These competitors, like Welcome Wagon®, target homeowners at various stages of the home ownership life cycle with advertising from third parties.

Our Homestore Plans and Publications business faces direct competition from several large publishing companies that print multiple publications, including home plan publications. Our major competitors include Hanley-Wood, LLC and The Garlinghouse Company. We also face competition from many smaller companies offering home plans for sale over the Internet, such as dreamhomesource.com and coolhouseplans.com.

**Infrastructure and Technology**

We seek to maintain and enhance our market position with consumers and real estate professionals by building proprietary systems and consumer features into our web sites, such as search engines for real estate listings and the technologies used to aggregate real estate content. We regard many elements of our web sites and underlying technologies as proprietary, and we attempt to protect these elements and underlying technologies by relying on trademark, service mark, patent, copyright and trade secret laws, restrictions on disclosure and other methods. See Intellectual Property.

Our web sites are designed to provide fast, secure and reliable high-quality access to our services, while minimizing the capital investment needed for our computer systems. We have made, and expect to continue to make, technological improvements designed to reduce costs and increase the attractiveness to the consumer and the efficiency of our systems. We expect that enhancements to our family of web sites, and to our products and services, will come from internally and externally developed technologies.

Our systems supporting our web sites must accommodate a high volume of user traffic, store a large number of listings and related data, process a significant number of user searches and deliver frequently updated information. Any significant increases in utilization of these services could strain the capacity of our computers, causing slower response times or outages. We host our Homestore.com®, REALTOR.com®, HomeBuilder.com®, RENTNET®, SeniorHousingNet™.com and custom broker web pages and the on-line subscription product for Top Producer® in Thousand Oaks, California. Because substantially all of our computer and communications hardware for each of our web sites is located at this location, our systems are vulnerable to fire, floods, telecommunications failures, break-ins, earthquakes and other force majeure events. Our operations are dependent on our ability to protect our systems from such occurrences. We are in the process of relocating all of our data systems operations to a new data center in Phoenix, Arizona and expect to complete the move by the end of 2006. See Risk Factors Internet Industry Risks for a more complete description of the risks related to our computer infrastructure and technology.

**Intellectual Property**

We regard substantial elements of our web sites and underlying technology as proprietary. We attempt to protect our intellectual property by relying on a combination of trademark, service mark, patent, copyright and trade secret laws, restrictions on disclosure and other methods.

Despite our precautions, our intellectual property is subject to a number of risks that may materially adversely affect our business, including but not limited to:

- it may be possible for a third party to copy or otherwise obtain and use our proprietary information without authorization or to develop similar technology independently;
- NAR could lose the use of the trademark REALTOR® or we could lose the use of such trademark or the REALTOR.com® domain name, or be unable to protect the other trademarks or web site addresses that are

important to our business, and therefore we would need to devote substantial resources toward developing an independent brand identity;

we could be subject to litigation with respect to our intellectual property rights;

we may be required to license additional technology and information from others, which could require substantial expenditures by us; and

legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and continue to evolve, and we can give no assurance regarding our ability to protect our intellectual property and other proprietary rights.

See Risk Factors Risks Related to Our Business for a more complete description of the risks related to our intellectual property.

**Seasonality**

Our Welcome Wagon® business in our Move-Related Services segment is affected by seasonality. Our revenue in this segment is significantly impacted by the number of household moves in the United States each year. Due to weather and school calendars, a disproportionate percentage of moves take place in the second and third calendar quarters than in the first and fourth quarters. As a result, we distribute a larger number of our Welcome Wagon® services in the second and third quarters each year. None of our other businesses are exposed to this degree of seasonality primarily due to the fact that much of our business in the Real Estate Services segment is derived from annual subscription contracts.

**Employees**

As of December 31, 2005, we had approximately 1,620 full-time equivalent employees. We consider our relations with our employees to be good. We have never had a work stoppage, and no employee is represented by collective bargaining agreements. We believe that our future success will depend in part on our ability to attract, integrate, retain and motivate highly qualified personnel and upon the continued service of our senior management and key technical personnel. See Risk Factors Risks Related to Our Business.

**Available Information**

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as well as our proxy statements and other information, with the Securities and Exchange Commission ( SEC ). In most cases, those documents are available, without charge, on our web site at *http://ir.homestore.com* as soon as reasonably practicable after they are filed electronically with the SEC. Copies are also available, without charge, from Homestore, Inc., Investor Relations, 30700 Russell Ranch Road, Westlake Village, CA 91362. You may also read and copy these documents at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549 under our SEC file number (000-26659), and you may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. In most cases, these documents are available over the Internet from the SEC s web site at http://www.sec.gov.

## Item 1A. *Risk Factors.*

*You should consider carefully the following risk factors and other information included or incorporated by reference in this Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we deem to be currently immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be materially adversely affected.*

### Risks Related to our Business

***Changes to our product offerings on our new home and apartment web sites may not be accepted by our customers.***

Currently, we display virtually all MLS data for listings of existing homes without charge on REALTOR.com®, but only provide listings on our new home and apartment web sites when the homebuilders or rental owners pay us on an annual subscription basis. When we launch Move.com™, which is expected to be in the second quarter of 2006, we will replace our existing new home site, HomeBuilder.com®, and our existing apartment rental site, RENTNET®, with Move.com™. In conjunction with this, we will begin to display any new home and apartment listings for no charge. We will seek revenue from enhanced listings, including our Showcase Listing and Featured Listing products, as well as other forms of advertising on the sites. We intend to price subscriptions to Showcase Listings based on regional rate cards. Featured Listings, which will appear above the algorithmically-generated search results, will be priced on a fixed cost-per-click basis. We anticipate transitioning in the future to a real-time, auction based cost-per-click pricing for Featured Listings.

When we launch Move.com™, existing listing subscription customers will be transitioned into our new products having comparable value for the duration of their existing subscription. Although the limited number of customers to whom we have previewed this new arrangement have reacted favorably, there can be no assurance that our current new home and apartment customers will purchase these new offerings in amounts sufficient to both replace the listing subscription revenue we will be losing and provide a return on our costs and investments associated with our new brand and these new products.

***We have a history of net losses and could incur net losses in the future.***

We have incurred net losses every year since 1993, except for modest net income in 2005, including net losses of $7.9 million and $47.1 million, for the years ended December 31, 2004 and 2003, respectively. As of December 31, 2005, we have an accumulated deficit of approximately $2.0 billion. Although our annual net losses have been decreasing and we anticipate becoming profitable in the future, we recently announced our new brand Move and certain business model changes that will require considerable investment with no assurances that our future financial performance will be enhanced by these new initiatives. Specifically, in February 2006, we announced plans to change our corporate name to Move, Inc. and introduced our new MOVE brand, under which we will promote three consumer offerings: REALTOR.com®, Welcome Wagon®, and a new web site, Move.com™. We will incur considerable costs in introducing and maintaining our new brand and there can be no assurances that these costs will produce the same or greater revenue than we have experienced in the past.

Move.com™, which we plan to launch in the second quarter of 2006, will replace our Homestore.com®, HomeBuilder.com® and RENTNET® web sites. In the past, we have charged homebuilders and rental owners to list their properties on our HomeBuilder.com® and RENTNET® web sites. With the launch of Move.com™ we will provide the listings for no charge and offer enhanced listing products and traditional text advertisements. Pricing structures will include monthly fixed fee, cost-per-click and auction based pricing. Due to the potential loss of revenue from paid listings that could result from our new pricing structures, our results of operations could be adversely affected, particularly in the second and third quarters of 2006, as we seek to transition our customers to the new pricing model. In addition, over the longer term there can be no assurance that this new business model will produce sufficient revenue to cover the considerable investment we intend to make in these new initiatives or to replace the listings revenue.

***The emergence of competitors for our services may adversely impact our business.***

Our existing and potential competitors include web sites offering real estate related content and services as well as general purpose online services, and traditional media such as newspapers, magazines and television that may compete for advertising dollars. The real estate search services market in which our Real Estate Services segment operates is becoming increasingly competitive. A number of competitors have emerged, including Lending Tree (a division of InterActive Corp), HouseValues.com, AgentConnect.com (a division of Next Phase Media, Inc.), HomeGain.com, Inc., ApartmentGuide.com, Rent.com, ForRent.com, Apartments.com, NewHomeGuide.com and NewHomeSource.com, as well as general interest consumer web sites that offer home, moving and finance content, including ServiceMagic, Inc. (a division of InterActiveCorp) and Gigamoves (a newly formed division of eBay).

The barriers to entry for web-based services and businesses are low. In addition, parties with whom we have listing and marketing agreements could choose to develop their own Internet strategies or competing real estate sites. Many of our existing and potential competitors have longer operating histories in the Internet market, greater name recognition, larger consumer bases and significantly greater financial, technical and marketing resources than we do. The rapid pace of technological change constantly creates new opportunities for existing and new competitors and it can quickly render our existing technologies less valuable. Developments in the real estate search services market may also encourage additional competitors to enter that market. See *We may not be able to continue to obtain more listings from Multiple Listing Services and real estate brokers than other web site operators* below.

We cannot predict how, if at all, our competitors may respond to our newly announced initiatives, such as the mapping solution that our new Move.com™ website will offer that will show users the exact location of their search results on a map. We also cannot provide assurance that our new offerings will be able to compete successfully against these competitors or new competitors that enter our markets.

***We may not be able to continue to obtain more listings from Multiple Listing Services and real estate brokers than other web site operators.***

We believe that the success of REALTOR.com® depends in large part on displaying a larger quantity and more current listings of existing homes for sale than other web sites. We obtain these listings through agreements with MLS s that have fixed terms, typically 12 to 36 months. At the end of the term of each agreement, the MLS could choose not to renew their agreement with us. There are no assurances the MLS s will continue to renew their agreements to provide listing data to us. If they choose not to renew their relationship with us, then REALTOR.com® could become less attractive to consumers and thus, less attractive to our advertising customers.

In addition, NAR has adopted a policy that allows a broker to prevent MLS s from providing such broker s listing data to other brokers web sites. This policy does not apply to REALTOR.com®. In a civil antitrust lawsuit brought against NAR in 2005, the United States Department of Justice (the DOJ ) challenged this policy by alleging that it is in violation of federal antitrust laws. It is possible that the ultimate resolution of this antitrust case could make it easier for other web sites to aggregate MLS listing data for display over the Internet in a manner comparable to REALTOR.com®. This could impact how consumers and customers value our content and product offerings on the REALTOR.com® web site.

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

Our quarterly results of operations have varied in the past and may vary significantly in the future. We have made significant investments in our businesses and incurred significant sales and marketing expenses and plan to continue this as we develop our new brand, MOVE, and related new business initiatives. As we discontinue our paid inclusion model for new home and apartment listings and seek to replace that revenue with enhanced listing products and advertising offered under fixed fee, cost-per-click and auction pricing models, we could experience a decline in quarterly revenue, especially in the second and third quarters of 2006. If revenue from these initiatives falls below our expectations, we will not be able to reduce our spending or change our pricing models rapidly in response to the shortfall. Fluctuations in our quarterly results could also adversely affect the price of our common stock.

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Other factors that could affect our quarterly operating results include those described elsewhere in this Form 10-K, and include:

the level at which real estate agents, brokers, homebuilders and rental owners renew the arrangements through which they obtain our services;

the amount of advertising sold on our web sites and the timing of payments for this advertising; and

the costs from pending litigation, including the cost of settlements.

***The ongoing investigations by the SEC and the DOJ could require us to continue to incur costs and could divert management attention from our business operations.***

In December 2001, we announced that the Audit Committee of our Board of Directors was conducting an inquiry into certain of our accounting practices and that the results of the inquiry to date indicated that our unaudited interim financial statements for 2001 would require restatement. In March 2002, we filed an amended Form 10-K for the year ended December 31, 2000 and amended Form 10-Qs for the first three quarters of 2001. In January 2002, we were notified that the SEC had issued a formal order of private investigation in connection with the accounting matters that resulted in the restatement of our financial statements. The SEC requested that we provide them with certain documents concerning the restatement and requested access to certain of our current and former employees for interviews. We have cooperated and continue to cooperate fully with the SEC s investigation as well as a parallel investigation by the DOJ.

Since September 2002, certain of our 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 us that, in light of the actions taken by our Board of Directors and our Audit Committee and our cooperation in the SEC s investigation, those agencies would not bring any enforcement action against us. In April 2005, a grand jury in Los Angeles indicted two of our former officers, Stuart Wolff and Peter Tafeen, in connection with the accounting irregularities described above and on March 2, 2006, Peter Tafeen pled guilty to one count of securities fraud. The trial for Wolff is scheduled to begin in March 2006. Because the SEC and DOJ investigations are ongoing and we are committed to continuing to cooperate with those investigations, we will likely continue to incur additional costs related to the investigation, including the costs of making documents available to these agencies. In addition, the effort and attention required to respond to the investigations could divert management s attention from our business operations.

***Continued obligations to Cendant Corporation related our settlement of our securities class action lawsuit could have an adverse effect on our financial condition.***

We could be subject to potential claims by Cendant Corporation ( Cendant ) for contribution or indemnity in connection with the securities class action lawsuit commenced against us following the December 2001 announcement of the discovery of accounting irregularities and the subsequent restatement of our 2000 and interim 2001 financial statements (the Securities Class Action Lawsuit ). Although Cendant was dismissed with prejudice as a defendant in the Securities Class Action Lawsuit, that dismissal has been appealed to the United States Court of Appeals for the Ninth Circuit. In October 2004, the SEC filed an amicus brief in support of the appeal. If Cendant s dismissal as a defendant in the Securities Class Action Lawsuit is reversed on appeal and Cendant is subsequently found liable or settles the claims against it in the Securities Class Action Lawsuit, Cendant will likely seek indemnification, contribution or similar relief from us.

Although the settlement of the Securities Class Action Lawsuit, which became final on March 4, 2005, includes a bar order that may preclude Cendant from seeking indemnification, contribution or similar relief from us in the event Cendant is found liable or settles claims against it in the Securities Class Action Lawsuit, we have been advised by counsel that the law is unclear on whether Cendant would be so precluded. Therefore, we 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 our results of operations and our financial position.

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In addition, if Cendant is not permitted to share in the settlement of the Securities Class Action Lawsuit (which would be the case if its dismissal as a defendant is reversed on appeal), we have 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 us had Cendant been a class member and Cendant s proof of claim in respect of its shares had been accepted in full. At this time, Cendant is still a member of the class and has not been excluded, but is one of the members of the class whose dismissal as a defendant is pending appeal. As such, Cendant has not yet received any of the $13.0 million cash or 20.0 million shares of stock we paid in the settlement. We estimate that Cendant could be entitled to receive approximately $2.3 million in cash and approximately 3.79 million shares from us should Cendant be prevented from participating in the settlement.

***We could be required to expend substantial amounts in connection with continuing indemnification obligations to a purchaser of one of our businesses.***

As part of the sale in 2002 of our 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 us 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 our ownership of ConsumerInfo. Under the stock purchase agreement pursuant to which we sold ConsumerInfo to Experian, we could have elected to defend against the claims, but because the alleged conduct occurred both before and after our sale to Experian, we elected to rely on Experian to defend them. Accordingly, we have not made a complete evaluation of the underlying claims, but rather receive 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. Experian is in the process of administering the settlement and we are unable to estimate the amounts for which Experian will seek indemnity from us at this time.

Other civil actions for which Experian demanded indemnification from us continue. Because those cases are continuing, the amounts to be paid by Experian arising from these actions for which Experian will seek indemnity from us cannot be estimated.

There is no assurance that Experian will not seek to recover from us an amount in excess of the Indemnity Escrow. Under the terms of the stock purchase agreement, our maximum potential liability for the claims by Experian is capped at $29.3 million less the balance in the Indemnity Escrow, which was $7.5 million at December 31, 2005.

***We are and may continue to be involved in litigation and other disputes.***

Our business and operations may subject us to claims, litigation and other proceedings brought by private parties and governmental authorities. We are currently involved in several matters, which are described in Note 22, Commitments and Contingencies Legal Proceedings, to our Consolidated Financial Statements in Item 8 in this Form 10-K.

Litigation may also result from other companies owning or obtaining patents or other intellectual property rights that could prevent, limit or interfere with our ability to provide our products and services. In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights, including in the Internet industry, and companies in the Internet market are increasingly making claims alleging infringement of their intellectual property rights. We have in the past and are currently involved in intellectual property-related disputes, and we may be involved in such disputes in the future, to protect our intellectual property or as a result of an alleged infringement of the intellectual property of others. Any such lawsuits, even if ultimately resolved in our favor, would likely be time-consuming and expensive to resolve and would divert management s time and attention. In addition to bringing litigation against us, parties that allege infringement of their intellectual property have in the past requested and may in the future request us to obtain a license from them to use that intellectual property. Any potential intellectual property dispute also could force us to do one or more of the following:

- stop selling, incorporating or using services that use the challenged intellectual property;
- obtain from the owner of the infringed intellectual property a license to the relevant intellectual property, which may require us to license our intellectual property to such owner, or may not be available on reasonable terms or at all; and
- redesign those services that use technology that is the subject of an infringement claim.

If we are forced to take any of the foregoing actions, such actions could have a material adverse effect on our results of operations and our financial position. Pursuant to our operating agreement with NAR, we may also be required to indemnify NAR for liabilities arising from the infringement or alleged infringement of third parties intellectual property rights, and these indemnification obligations could have a material adverse effect on our results of operations and our financial position.

***We rely on intellectual property and proprietary rights.***

We regard substantial elements of our web sites and underlying technology as proprietary. Despite our precautionary measures, third parties may copy or otherwise obtain and use our proprietary information without authorization or develop similar technology independently. Any legal action that we may bring to protect our proprietary information could be unsuccessful, expensive and distract management from day-to-day operations.

Other companies may own, obtain or claim trademarks that could prevent or limit or interfere with use of the trademarks we use. The REALTOR.com® web site address and trademark and the REALTOR® trademark are important to our business and are licensed to us by NAR. If we were to lose the REALTOR.com® domain name or the use of these trademarks, our business would be harmed and we would need to devote substantial resources toward developing an independent brand identity.

Legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and evolving, and we can give no assurance regarding the future viability or value of any of our proprietary rights.

***Our recently issued Series B Preferred Stock could make it more difficult for us to raise additional capital.***

In November 2005, we sold to Elevation Partners, L.P. and Elevation Employee Side Fund, LLC (together, Elevation ) an aggregate of 100,000 shares of our Series B Convertible Participating Preferred Stock (the Series B Preferred Stock ) for an aggregate purchase price of $100 million. For so long as the holders of Series B Preferred Stock hold at least one-sixth of these 100,000 shares of Series B Preferred Stock, we are generally not permitted, without obtaining the consent of holders representing at least a majority of the then outstanding shares of Series B Preferred Stock, to create or issue any equity securities that rank senior or on a parity with the Series B Preferred Stock with respect to dividend rights or rights upon our liquidation. In addition, our stockholders agreement with Elevation limits the amount of debt we can incur. If we need to raise additional capital through public or private financing, strategic relationships or other arrangements to execute our business plan, we would be restricted in the type of equity securities that we could offer and the amount of debt we can incur without the consent of Elevation. We can not offer any assurances that we would be able to obtain that consent. If we were unable to obtain Elevation s consent, we may not be able to raise additional capital in the amounts needed to fund our business or for terms that are desirable.

***Our relationship with the National Association of REALTORS® is an important part of our business plan and our business could be harmed if we were to lose the benefits of this agreement.***

The REALTOR.com® trademark and web site address and the REALTOR® trademark are owned by NAR. NAR licenses these trademarks to our subsidiary RealSelect under a license agreement, and RealSelect operates the REALTOR.com® web site under an operating agreement with NAR. Our operating agreement with NAR contains

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restrictions on how we can operate the REALTOR.com® web site. For example, we can only enter into agreements with entities that provide us with real estate listings, such as MLS s, on terms approved by NAR. In addition, NAR can require us to include on REALTOR.com® real estate related content that it has developed.

Our operating agreement with NAR, as amended, also contains a number of provisions that restrict how we operate our business. For example:

we would need to obtain the consent of NAR if we want to acquire or develop another service that provides real estate listings on an Internet site or through other electronic means; any consent from NAR, if obtained, could be conditioned on our agreeing to conditions such as paying fees to NAR or limiting the types of content or listings on the web sites or service or other terms and conditions;

we are restricted in the type and subject matter of, and the manner in which we display, advertisements on the REALTOR.com® web site;

NAR has the right to approve how we use its trademarks, and we must comply with its quality standards for the use of these marks; and

we must meet performance standards relating to the availability time of the REALTOR.com® web site.

NAR also has significant influence over our RealSelect subsidiary s corporate governance, including the right to have one representative as a member of our Board of Directors (out of a current total of 10) and two representatives as members of RealSelect s Board of Directors (out of a current total of 8). RealSelect also cannot take certain actions, including amending its certificate of incorporation or bylaws, pledging its assets and making changes in its executive officers or Board of Directors, without the consent of at least one of NAR s representatives on its Board of Directors.

Although the REALTOR.com® operating agreement is a perpetual agreement and it does not contain provisions that allow us to terminate, NAR may terminate it for a variety of reasons. These include:

the acquisition of us or RealSelect by another party;

if traffic on the REALTOR.com® site falls below 500,000 unique users per month;

a substantial decrease in the number of property listings on our REALTOR.com® site; and

a breach of any of our other obligations under the agreement that we do not cure within 30 days of being notified by NAR of the breach.

If our operating agreement with NAR were terminated, we would be required to transfer a copy of the software that operates the REALTOR.com® web site and assign our agreements with data content providers, such as real estate brokers or MLS s, to NAR. NAR would then be able to operate the REALTOR.com® web site itself or with another third party.

***It is important to our success that we support our real estate professional customers.***

Since many real estate professionals are not sophisticated technology users and often spend limited amounts of time in their offices, it is important that these customers find that our software and web site products significantly enhance their productivity and are easy to use. To meet these needs, we provide customer training and have developed a customer support organization that seeks to respond to customer inquiries as quickly as possible. If we do not maintain adequate support levels, our customers may choose not to renew their subscriptions for our software and web site products.

***We must dedicate significant resources to market our subscription products and services to real estate professionals.***

Real estate agents are generally independent contractors rather than employees of brokers and typically spend a majority of their time outside the office. As a result, it is often necessary for us to communicate with them on an individual basis. This results in relatively high fixed costs associated with our inside and field-based sales activities.

In addition, since we offer services to both real estate brokers and agents, we are often required to contact them separately when marketing our products and services.

***A failure to establish and maintain strategic online relationships that generate a significant amount of traffic could limit the growth of our business.***

We have established strategic relationships with online companies that generate a significant amount of online traffic for our web sites. Failure to maintain these relationships and create new ones could limit the growth of our business. Although we expect that a significant portion of our online customers will continue to come to our web sites directly, we also continue to rely on third-party web sites with which we have relationships, including web sites operated by AOL, Yahoo!, MSN, Excite, iWon.com, Internet Broadcast Systems, United Online through its Juno and NetZero brands, Overture and Google for online traffic. We may also be required to pay significant fees to establish, maintain and expand our existing online relationships. As a result, our revenue may suffer if we fail to enter into new relationships or maintain existing relationships or if these relationships do not result in online traffic sufficient to justify their costs.

***Our future success depends largely on our ability to attract, retain and motivate personnel.***

Our future success depends on our ability to attract, retain and motivate highly skilled technical, managerial and sales personnel, our senior management and other key personnel. The loss of the services of key employees would likely have a significantly detrimental effect on our business. Several of our key senior management have employment agreements that we believe will assist in our ability to retain them. However, many other key employees do not have employment agreements. Competition for qualified personnel in our industry and geographical locations is intense. Attracting and retaining qualified personnel with experience in the real estate industry, a complex industry that requires a unique knowledge base, is an additional challenge for us. We can give no assurance that we will be successful in attracting, integrating, retaining and motivating a sufficient number of qualified employees to conduct our business in the future. The loss of services of any of our key personnel, excessive turnover of our work force, the inability to retain and attract qualified personnel in the future or delays in hiring required personnel may have a material adverse effect on our business, operating results or financial condition.

***Delaware law, our certificate of incorporation and bylaws, and other agreements contain provisions that could discourage a takeover.***

Delaware law, our certificate of incorporation and bylaws, our operating agreement with NAR, other agreements with business partners and a stockholders agreement could have the effect of delaying or preventing a third party from acquiring us, even if a change in control would be beneficial to our stockholders. For example, we currently have a classified Board of Directors, although our certificate of incorporation has been amended to provide for the annual election of all directors beginning at our annual meeting of our shareholders in 2008. In addition, our stockholders are unable to act by written consent or to fill any vacancy on the Board of Directors. Our stockholders cannot call special meetings of stockholders for any purpose, including to remove any director or the entire Board of Directors without cause. Certain terms of the Series B Preferred Stock could also discourage a third party from acquiring us. Upon a change in control, we would be required to make an offer to repurchase all of the outstanding shares of Series B Preferred Stock for total cash consideration generally equal to 101% of the liquidation preference ($100 million plus all accrued and unpaid dividends) plus, under certain circumstances, 101% of a portion of the dividends which would have accrued had the Series B Preferred Stock remained outstanding. In addition, NAR could terminate the REALTOR.com® operating agreement if we are acquired and they do not consent to the acquisition.

***Confusion among consumers about our new name and the related rebranding of some of our web sites could adversely affect our business.***

We recently announced our intention to change our corporate name to Move, Inc. Move.com™, which we plan to launch in the second quarter of 2006, will replace our Homestore.com®, HomeBuilder.com® and RENTNET® web sites. Until the Move name becomes recognized in the markets in which we compete, we could experience some confusion by consumers and temporarily be at a competitive disadvantage. Although we intend to devote substantial resources to promoting our new name and communicating with consumers, the transition period may take longer than anticipated and our business may, during that period, be adversely affected.

### Real Estate Industry Risks

***Our business is dependent on the strength of the real estate industry, which is both cyclical and seasonal and is affected by general economic conditions.***

The real estate industry traditionally has been cyclical. Recently, sales of real estate in the United States have been at historically high levels. Economic swings in the real estate industry may be caused by various factors. When interest rates are high or general national and global economic conditions are or are perceived to be weak, there is typically less sales activity in real estate. A decrease in the current level of sales of real estate and products and services related to real estate could adversely affect demand for our products and services. In addition, reduced traffic on our web sites could cause our subscription and advertising revenue to decline, which would materially and adversely affect our business.

During recessionary periods, there tends to be a corresponding decline in demand for real estate, generally and regionally, that could adversely affect certain segments of our business. Such adverse effects typically are a general decline in rents and sales prices, a decline in leasing activity, a decline in the level of investments in, and the value of, real estate, and an increase in defaults by tenants under their respective leases. All of these, in turn, adversely affect revenue for fees and brokerage commissions, which are derived from property sales, and annual rental payments and property management fees.

Purchases of real property and related products and services are particularly affected by negative trends in the general economy. The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer and business spending, and the overall economy, as well as regional and local economic conditions in markets where we operate, including interest rates, taxation policies, availability of credit, employment levels, wage and salary levels and fears of terrorist attacks or threats of war.

We could experience seasonality in our business as we offer new products and new pricing models. The real estate industry, in most areas of the United States, generally experiences a decrease in activity during the winter.

***We have risks associated with changing legislation in the real estate industry.***

Real estate is a heavily regulated industry in the U.S., including regulation under the Fair Housing Act, the Real Estate Settlement Procedures Act and state advertising laws. In addition, states could enact legislation or regulatory policies in the future, which could require us to expend significant resources to comply. These laws and related regulations may limit or restrict our activities. As the real estate industry evolves in the Internet environment, legislators, regulators and industry participants may advocate additional legislative or regulatory initiatives. Should existing laws or regulations be amended or new laws or regulations be adopted, we may need to comply with additional legal requirements and incur resulting costs, or we may be precluded from certain activities. For instance, RENTNET® was required to qualify and register as a real estate agent/broker in the State of California. To date, we have not spent significant resources on lobbying or related government issues. Any need to significantly increase our lobbying or related activities could substantially increase our operating costs.

### Internet Industry Risks

***Our internal network infrastructure could be disrupted as a result of our move to a new data center or other problems.***

Our operations depend upon our ability to maintain and protect our computer systems, located at our corporate headquarters in Westlake Village, California and our technology facility in Thousand Oaks, California. During 2005, we began the process of upgrading a facility we have leased in Phoenix, Arizona, to which we will relocate our Thousand Oaks data center operations. We expect to continue to incur costs as we complete the building process and transition these operations to the new facilities. If we encounter delays or difficulties in the transition of operations to the new facilities, our operations could be disrupted and our financial condition could be adversely affected.

Temporary or permanent outages of our computers or software equipment could have an adverse effect on our business. Although we have not experienced any material outages to date, we currently do not have a fully redundant system for our web sites and other services at an alternate site. Therefore, our systems are vulnerable to damage from break-ins, unauthorized access, vandalism, fire, earthquakes, power loss, telecommunications failures and similar events. Although we maintain insurance against fires, earthquakes and general business interruptions, the amount of coverage, while adequate to replace assets and compensate for losses incurred, may not be adequate to compensate for the disruption it causes our customers and consumers, which could affect our future revenues and traffic.

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

***We depend on continued improvements to our computer network and the infrastructure of the Internet.***

Any failure of our computer systems that causes interruption or slower response time of our web sites or services could result in a smaller number of users of our web sites or the web sites that we host for real estate professionals. If sustained or repeated, these performance issues could reduce the attractiveness of our web sites to consumers and our subscription products and services to real estate professionals, providers of real estate-related products and services and other Internet advertisers. Increases in the volume of our web site traffic could also strain the capacity of our existing computer systems, which could lead to slower response times or system failures. This would cause the number of real property search inquiries, advertising impressions, other revenue producing offerings and our informational offerings to decline, any of which could hurt our revenue growth and our brand loyalty. We may need to incur additional costs to upgrade our computer systems in order to accommodate increased demand if our systems cannot handle current or higher volumes of traffic. We may not be able to project accurately the rate, timing or cost of any increases in our business, or to expand and upgrade our systems and infrastructure to accommodate any increases in a timely manner.

Our ability to increase the speed with which we provide services to consumers and to increase the scope of these services is limited by and dependent upon the speed and reliability of the Internet. Consequently, the emergence and growth of the market for our services is dependent on the performance of and future improvements to the Internet.

***We could face liability for information on our web sites and for products and services sold over the Internet.***

We provide third-party content on our web sites, particularly real estate listings. We could be exposed to liability with respect to this third-party information. Persons might assert, among other things, that by directly or indirectly providing a link to web sites operated by third parties, we should be liable for copyright or trademark infringement or other wrongful actions by the third parties operating those web sites. They could also assert that our third-party information contains errors or omissions, and consumers could seek damages for losses incurred if they rely upon incorrect information.

We enter into agreements with other companies under which we share with these other companies revenue resulting from advertising or the purchase of services through direct links to or from our web sites. These arrangements may expose us to additional legal risks and uncertainties, including local, state, federal and foreign government regulation and potential liabilities to consumers of these services, even if we do not provide the services ourselves. We cannot offer an assurance that any indemnification provided to us in our agreements with these parties, if available, will be adequate.

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Even if these claims do not result in liability to us, we could incur significant costs in investigating and defending against these claims. Our general liability insurance may not cover all potential claims to which we are exposed and may not be adequate to indemnify us for all liability that may be imposed.

**Item 1B.** ***Unresolved Staff Comments.***

None.

**Item 2.** ***Properties:***

We maintain the following principal facilities:

| | Location | Square Feet | Lease Expiration |
|---|---|---|---|
| Principal executive and corporate office (C)(RS)(MRS) | Westlake Village, CA | 137,762 | 2008 |
| Technology facility (C)(RS)(MRS) | Thousand Oaks, CA | 13,717 | 2006 |
| Technology facility (C)(RS)(MRS) | Phoenix, AZ | 8,114 | 2017 |
| Operations and customer service center (RS)(MRS) | Scottsdale, AZ | 36,175 | 2007 |
| Welcome Wagon® (MRS) | Plainview, NY | 48,148 | 2015 |
| Top Producer® (RS) | Richmond, BC | 33,702 | 2008 |
| Homestore Plans and Publication (MRS) | St. Paul, MN | 24,645 | 2006 |
| Enterprise (RS) | Milwaukee, WI | 13,016 | 2007 |
| Moving.com (MRS) | Marlborough, MA | 5,580 | 2009 |

(C Corporate) (RS Real Estate Services) (MRS Move-Related Services)

We believe that our existing facilities and office space are adequate to meet current requirements.

**Item 3.** ***Legal Proceedings.***

From time to time, we are party to various litigation and administrative proceedings relating to claims arising from our operations in the ordinary course of business. See the disclosure regarding litigation included in Note 21, Settlements of Disputes and Litigation, and Note 22, Commitments and Contingencies Legal Proceedings, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K, which disclosures are incorporated herein by reference. As of the date of this Form 10-K and except as set forth herein, we are not a party to any other litigation or administrative proceedings that management believes will have a material adverse effect on our business, results of operations, financial condition or cash flows.

**Item 4.** ***Submission of Matters to a Vote of Security Holders.***

We did not submit any matters to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2005.

**PART II**

**Item 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

**Market Information**

Our common stock was traded on The NASDAQ SmallCap Market under the symbol HOMS from November 18, 2002 until January 2, 2004. Prior to that time, our common stock was traded on The NASDAQ National Market. On January 2, 2004, we resumed trading on The NASDAQ National Market. The following table

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shows the high and low sale prices of the common stock as reported by The NASDAQ National Market for the periods indicated.

| | High | Low |
|---|---|---|
| **2004** | | |
| First Quarter | $ 5.58 | $ 3.49 |
| Second Quarter | 5.95 | 3.70 |
| Third Quarter | 4.29 | 1.81 |
| Fourth Quarter | 3.31 | 2.25 |
| **2005** | | |
| First Quarter | 3.24 | 2.09 |
| Second Quarter | 2.34 | 1.65 |
| Third Quarter | 4.64 | 2.06 |
| Fourth Quarter | 5.84 | 3.22 |
| **2006** | | |
| First Quarter (through February 28, 2006) | 6.56 | 5.12 |

On February 22, 2006, we announced our intention to change our symbol to MOVE. This change should occur in the second quarter of 2006.

As of February 28, 2006, there were approximately 3,316 record holders of our common stock. Because many of these shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

**Dividends**

We have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future, except for an annual dividend of $0.08 to be paid on the one share of our Series A preferred stock held by NAR. We are obligated to pay dividends on our Series B Preferred Stock of 3.5% per year, paid quarterly. For the first five years the Series B Preferred Stock is outstanding, the dividend will be paid in-kind in shares of Series B Preferred Stock. See Note 15, Series B Convertible Preferred Stock, to our Consolidated Financial Statements contained in Item 8 of the Form 10-K for information regarding restrictions on our ability to pay dividends.

**Recent Sales of Unregistered Securities**

There were no sales of unregistered equity securities by Homestore during 2005 that have not previously been reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides information as of December 31, 2005 regarding compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

| | Weighted Average | Number of Securities |
|---|---|---|

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) (In thousands) | | Exercise Price of Outstanding Options, Warrants and Rights (b) | Remaining Available For Future Issuance (Excluding Securities Reflected in Column (a) (c) (In thousands) |
|---|---|---|---|---|
| Equity compensation plans approved by security holders | 25,091 | $ | 3.00 | 3,433 |
| Equity compensation plans not approved by security holders | 7,123 | $ | 2.26 | 10,531 |
| Total | 32,214 | $ | 2.84 | 13,964 |

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### Equity Compensation Plan Information

Each of the above plans provides that the number of shares with respect to which options may be granted, and the number of shares of common stock subject to an outstanding option, shall be proportionately adjusted in the event of a subdivision or consolidation of shares or the payment of a stock dividend on common stock, and the purchase price per share of outstanding options shall be proportionately revised.

The Homestore, Inc. 1999 Stock Incentive Plan, a security-holder approved plan, contains a provision for an automatic increase in the number of shares available for issuance each January 1 (until January 1, 2009) by an amount equal to 4.5% of the total number of outstanding shares as of the preceding December 31; provided that the aggregate number of shares that qualify as Incentive Stock Options (as defined in the plan) must not exceed 20.0 million shares.

**Non-Shareholder Approved Plans**

Options are granted from the Homestore, Inc. 2002 Stock Incentive Plan, a plan established in January 2002 to attract and retain qualified personnel. No more then 40% of the available securities granted under this plan may be awarded to our directors or executive officers. Option grants under this plan are non-qualified stock options and generally have a 4-year vesting schedule and a 10-year life.

Other non-shareholder approved plans include the following plans assumed in connection with prior acquisitions: The 1997-1998 Stock Incentive Plan of Cendant Corporation, the Cendant Corporation Move.com Group 1999 Stock Option Plan, as amended and restated effective as of March 21, 2000, the Move.com, Inc. 2000 Stock Incentive Plan, the HomeWrite Incorporated 2000 Equity Incentive Plan, the ConsumerInfo.com, Inc. 1999 Stock Option Plan, the iPlace 2000 Stock Option Plan, the eNeighborhoods, Inc. 1998 Stock Option Plan, the Qspace, Inc. 1999 Stock Option Plan, the iPlace, Inc. 2001 Equity Incentive Plan and The Hessel Group, Inc. 2000 Stock Option Plan. Each of these plans (i) was intended to attract, retain and motivate employees, (ii) was administered by the Board of Directors or by a committee of the Board of Directors of such entities, and (iii) provided that options granted thereunder would be exercisable as determined by such Board or committee, provided that no option would be exercisable after the expiration of 10 years after the grant date. We did not grant options under any of these plans in 2005 and 2004, and we do not plan to do so in the future. Options outstanding as of December 31, 2005 pursuant to compensation plans assumed in connection with prior acquisitions, in the aggregate, total 180,249 and the weighted average exercise price of those option shares is $20.30.

For additional information regarding our equity compensation plans, see Note 13, Stock Plans, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K.

**Item 6.** ***Selected Financial Data***

You should read the following selected consolidated financial data together with the Consolidated Financial Statements and related notes included in Part II Item 8. Financial Statements and Supplementary Data and Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The consolidated statement of operations data for the years ended December 31, 2005, 2004 and 2003 and the consolidated balance sheet data as of December 31, 2005 and 2004 are derived from our audited Consolidated Financial Statements included in Part II Item 8. Financial Statements and Supplementary Data. The consolidated statement of operations data for the year ended December 31, 2002 and the consolidated balance sheet data as of December 31, 2003 and 2002 have been derived from audited Consolidated Financial Statements not included in this Form 10-K. The consolidated statement of operations data for the year ended December 31, 2001 and the

consolidated balance sheet data as of December 31, 2001 have been derived from unaudited Consolidated Financial Statements not included in this Form 10-K.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001(1) |
| | (In thousands, except per share amounts) | | | | |
| **Consolidated Statement of Operations Data:** | | | | | |
| Revenue(2) | $ 252,622 | $ 216,860 | $ 198,227 | $ 219,867 | $ 254,103 |
| Related party revenue | | | 7,695 | 31,158 | 38,346 |
| Total revenue | 252,622 | 216,860 | 205,922 | 251,025 | 292,449 |
| Cost of revenue(2) | 56,188 | 50,829 | 56,569 | 73,622 | 110,377 |
| Gross profit | 196,434 | 166,031 | 149,353 | 177,403 | 182,072 |
| Operating expenses: | | | | | |
| Sales and marketing(2) | 91,071 | 88,388 | 101,122 | 161,554 | 239,790 |
| Product and web site development(2) | 22,059 | 15,362 | 17,065 | 25,497 | 32,397 |
| General and administrative(2) | 82,545 | 68,442 | 65,333 | 83,042 | 168,695 |
| Amortization of goodwill and intangible assets(3) | 3,624 | 7,894 | 21,863 | 34,699 | 199,291 |
| Restructuring charges(2) | (1,331) | 1,316 | 4,100 | 12,057 | 50,234 |
| Impairment of long-lived assets | | | 26,999 | 3,482 | 925,094 |
| Litigation settlement | 1,750 | 2,168 | 63,600 | 23,000 | |
| Total operating expenses | 199,718 | 183,570 | 300,082 | 343,331 | 1,615,501 |
| Loss from operations | (3,284) | (17,539) | (150,729) | (165,928) | (1,433,429) |
| Interest income (expense), net | 2,351 | 672 | (406) | 2,673 | 10,490 |
| Gain on settlement of distribution agreement | | | 104,071 | | |
| Other income (expense), net | 623 | 2,366 | 691 | (5,694) | (44,393) |
| Loss from continuing operations | (310) | (14,501) | (46,373) | (168,949) | (1,467,332) |
| Gain on disposition of discontinued operations | 855 | 7,294 | 2,530 | 11,790 | |
| Income (loss) from discontinued operations | | (679) | (3,281) | (6,266) | 1,743 |
| Net income (loss) | 545 | (7,886) | (47,124) | (163,425) | (1,465,589) |
| Convertible preferred stock dividend | (311) | | | | |
| Net income (loss) applicable to common stockholders | $ 234 | $ (7,886) | $ (47,124) | $ (163,425) | $ (1,465,589) |
| Basic income (loss) per share applicable to common stockholders | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Continuing operations | $ | (0.01) | $ | (0.11) | $ | (0.39) | $ | (1.43) | $ | (13.66) |
| Discontinued operations | | 0.01 | | 0.05 | | (0.01) | | 0.05 | | 0.02 |
| Basic income (loss) per share applicable to common stockholders | $ | 0.00 | $ | (0.06) | $ | (0.40) | $ | (1.39) | $ | (13.64) |
| Diluted income (loss) per share applicable to common stockholders | | | | | | | | | | |
| Continuing operations | $ | (0.00) | $ | (0.11) | $ | (0.39) | $ | (1.43) | $ | (13.66) |
| Discontinued operations | | 0.00 | | 0.05 | | (0.01) | | 0.05 | | 0.02 |
| Diluted income (loss) per share applicable to common stockholders | $ | 0.00 | $ | (0.06) | $ | (0.40) | $ | (1.39) | $ | (13.64) |
| Shares used in calculation of income (loss) per share | | | | | | | | | | |
| Basic | | 147,175 | | 136,518 | | 118,996 | | 117,900 | | 107,433 |
| Diluted | | 182,548 | | 136,518 | | 118,996 | | 117,900 | | 107,433 |

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(1) Acquisitions during the year ended December 31, 2001 include Internet Pictures Corporation ( iPIX ), Computer for Tracts ( CFT ), Homewrite, Inc., Homebid.com, Inc., and Move.com Group which includes Welcome Wagon International, Inc., and RENTNET®.

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (In thousands) | | | | |
| **Stock-based Charges:** | | | | | |
| Revenue | $ | $ | $ 1,119 | $ 1,501 | $ 2,456 |
| Cost of revenue | | | 16 | 134 | 383 |
| Sales and marketing | 291 | 301 | 3,795 | 63,848 | 71,188 |
| Product and web site development | | | 15 | 127 | 361 |
| General and administrative | 824 | 518 | 164 | 1,297 | 6,237 |
| Restructuring charges | | | 2,140 | | |
| | $ 1,115 | $ 819 | $ 7,249 | $ 66,907 | $ 80,625 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (In thousands) | | | | |
| **Consolidated Balance Sheet Data:** | | | | | |
| Cash and short-term investments | $ 152,322 | $ 59,859 | $ 35,517 | $ 80,463 | $ 38,272 |
| Working capital (deficiency) | 95,810 | 1,059 | (70,729) | (80,763) | (31,888) |
| Total assets | 249,026 | 150,504 | 153,548 | 379,208 | 615,037 |
| Obligation under capital lease | 1,005 | 2,765 | 1,904 | | |
| Series B convertible preferred stock | 91,349 | | | | |
| Total stockholders equity | $ 61,924 | $ 57,393 | $ 328 | $ 38,730 | $ 183,256 |

(3) We adopted SFAS No. 142 in 2002 and ceased amortizing goodwill as required by that standard.

**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

You should read the following discussion in conjunction with our audited Consolidated Financial Statements for the years ended December 31, 2005, 2004 and 2003 and related notes included in Part II Item 8. Financial Statements and Supplementary Data.

**Overview**

***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 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 the corporate name to Homestore.com®, Inc. in August 1999. We changed our name to Homestore, Inc. in May 2002. We announced our intention in February 2006 to change our name in June to Move, Inc., subject to approval by our shareholders at our next annual meeting.

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***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.

Our primary consumer web sites include REALTOR.com®, the official site of the NAR; HomeBuilder.com®, the official site of the NAHB; RENTNET®.com, an apartment, corporate housing and self store resource; SeniorHousingNet™.com, a comprehensive resource for seniors; and Homestore.com®, a home information resource site with an emphasis on content related to mortgage financing, moving and storage, and home and garden activities. During the second quarter of 2006, we intend to launch Move.com™ as a real estate listing and move-related search site. Shortly after its launch, Move.com™ will replace HomeBuilder.com®, RENTNET®.com and Homestore.com® and we will begin promoting those under the MOVE brand.

*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 could 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 a 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 and we believe it will completely replace our desktop product this year.

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*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 significant decline in our revenue in this segment over the past three years. 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 areas: size and quality of consumer audience, dept and breadth of content, enduring industry relationships, and scalable business models. We recently announced significant changes to our branding, product and pricing strategies to better align our solutions with these core competencies.

*Acquisitions and Dispositions*

On February 21, 2006, the Company acquired certain assets and assumed certain liabilities of Moving.com, Inc. from TMP Directional Marketing, LLC for approximately $9.0 million in cash subject to certain post-closing adjustments. Moving.com connects consumers with moving companies, van lines, truck rental providers and self storage facilities.

On December 21, 2004, we entered into an Asset Purchase Agreement with Newstar Systems, Inc. ( Newstar ) pursuant to which we agreed to sell our Computer for Tracts ( CFT ) software business, which at the time had been reported as part of our software segment, for a purchase price of approximately $2.5 million in cash. The transaction closed on December 21, 2004, resulting in a gain on disposition of discontinued operations of approximately $1.6 million.

On October 6, 2004, we entered into an Asset Purchase Agreement with Wyld Acquisition Corp. ( Wyld ), a wholly owned subsidiary of Siegel Enterprises, Inc., pursuant to which we agreed to sell our Wyldfyre software business, which at the time had been reported as part of our software segment, for a purchase price of $8.5 million in cash. The transaction closed on October 6, 2004, resulting in a gain on disposition of discontinued operations of $5.7 million for the year ended December 31, 2004. The sale generated net proceeds of approximately $7.0 million after transaction fees and monies placed in escrow pursuant to the Asset Purchase Agreement. In the fourth quarter of 2005, the entire amount of the escrow fund, $0.9 million, was released and recognized as Gain on disposition of discontinued operations for the year ended December 31, 2005.

Pursuant to SFAS No. 144, our Consolidated Financial Statements for all periods presented reflect the disposition of our Wyldfyre and CFT divisions as discontinued operations. Accordingly, the revenue, costs and expenses, and cash flows of these divisions have been excluded from the respective captions in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows and have been reported as Loss from discontinued operations, net of applicable income taxes of zero; and as Net cash provided by (used in) discontinued operations. Total revenue and loss from discontinued operations are reflected below (in thousands):

| | **Year Ended December 31,** | |
|---|---|---|
| | **2004** | **2003** |
| Revenue | $ 9,137 | $ 12,788 |
| Total expenses | 9,816 | 16,069 |

| | | |
|---|---|---|
| Loss from discontinued operations | $ (679) | $ (3,281) |

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The calculation of the gain on the sale of discontinued operations is as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Gross proceeds from sale | $ 855 | $ 10,981 | $ 2,300 |
| Less: | | | |
| Cash subject to escrow | | 850 | |
| Net assets sold | | 2,210 | |
| Transaction costs | | 627 | |
| Cash and Homestore stock received from purchase of iPlace | | | (230) |
| Gain on disposition of discontinued operations | $ 855 | $ 7,294 | $ 2,530 |

The cash and stock received in the year ended December 31, 2003 from the purchase of iPlace relates to the settlement of the original escrow related to our purchase of iPlace in 2001.

**Critical Accounting Policies, Estimates and Assumptions**

Our discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, uncollectible receivables, intangible and other long-lived assets and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements: revenue recognition; valuation allowances, specifically the allowance for doubtful accounts; valuation of goodwill, identified intangibles and other long-lived assets; accounting for business combinations; and legal contingencies.

Management has discussed the development and selection of the following critical accounting policies, estimates and assumptions with the Audit Committee of our Board of Directors and the Audit Committee has reviewed these disclosures.

*Revenue Recognition* We derive our revenue primarily from two sources:

- software revenue, which includes software licenses and support revenue which includes software maintenance, training, consulting and web site hosting revenue; and
- advertising revenue for running online advertising on our web sites or offline advertising placed in our publications.

As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period.

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition , and Emerging Issues Task Force Issue ( EITF ) 00-21, Revenue Arrangements with Multiple Deliverables . Revenue is recognized only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

We assess collection based on a number of factors, including past transaction history with the customer and the credit worthiness of the customer. We do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash. Cash received in advance is recorded as deferred revenue until earned.

*Software revenue* We generally license our software products in two ways:

- on a one-year term basis; and
- on a monthly subscription basis.

Our hosting arrangements require customers to pay a fixed fee and receive service over a period of time, generally one year.

We apply the provisions of Statement of Position ( SOP ) 97-2, Software Revenue Recognition, as amended by SOP 98-9 Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, to all transactions involving the sale of software. Software license revenue is recognized upon all of the following criteria being satisfied:

- the execution of a license agreement;
- product delivery;
- fees are fixed or determinable;
- collectibility is reasonably assured; and
- all other significant obligations have been fulfilled.

For arrangements containing multiple elements, such as software license fees, consulting services and maintenance, and where vendor-specific objective evidence ( VSOE ) of fair value exists for all undelivered elements, we account for the delivered elements in accordance with the residual method prescribed by SOP 98-9. For arrangements in which VSOE does not exist for the undelivered element, including specified upgrades, revenue is deferred and not recognized until either VSOE is established or delivery of the element without VSOE has occurred. Our arrangements generally do not include acceptance clauses. However, if an arrangement includes an acceptance clause, acceptance occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period. Revenue for maintenance services are recognized ratably over the contract term. Certain software products are sold as subscriptions, and accordingly, revenue is deferred and recognized ratably over the term of the contract which is typically based on a one-year renewable term.

*Advertising Revenue* We sell online and offline advertising. Online advertising revenue includes three revenue streams:

- impression based;
- fixed fee subscriptions; and
- variable, performance based agreements.

The impressions based agreements range from spot purchases to 12 month contracts. The impression based revenue is recognized based upon actual impressions delivered and viewed by a user in a period. The fixed fee subscription revenue is recognized ratably over the period in which the services are provided. We measure performance related to advertising obligations on a monthly basis prior to the recording of revenue. Offline advertising revenue is recognized when the publications in which the advertising is displayed are shipped.

***Allowance for Doubtful Accounts***

Our estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount to be reserved. First, we evaluate specific accounts where we have information that the customer may have an inability to meet its financial obligations. In these cases, we use our judgment, based on the best available facts and circumstances, and record a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, an additional reserve is established for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change (i.e. higher than expected defaults or an unexpected material adverse change in a major customer s ability to meet its financial obligation to us) our estimates of the recoverability of amounts due to us could be reduced or increased by a material amount.

***Valuation of Goodwill, Identified Intangibles and Other Long-lived Assets***

We test goodwill for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets and test intangible assets and property, plant and equipment for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We assess the impairment of goodwill, identifiable intangible assets and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- a significant decline in actual and projected revenue;
- a significant decline in the market value of our common stock;
- a significant decline in performance of certain acquired companies relative to their original projection;
- a significant difference between our net book value and our market value;
- a significant decline in our operating results relative to our operating forecasts;
- a loss of key customer relationships coupled with the renegotiation of existing arrangements;
- a significant change in the manner of our use of the acquired assets or the strategy for our overall business;
- a significant decrease in the market value of an asset;
- a shift in technology demands and development; and
- a significant turnover in key management or other personnel.

When we determine that the carrying value of goodwill, other intangible assets and other long lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. In each of the third and fourth quarters of 2003, we recognized an impairment of our long-lived assets. See Note 5, Impairment of Long-lived Assets, to our Consolidated Financial Statements contained in Item 8 of this Form 10-K.

We adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* in January 2002. Under SFAS No. 142, goodwill is no longer amortized, but is tested for impairment at a reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value amount. Events or circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, significant declines in our stock price for a sustained period or significant underperformance relative to expected historical or projected future operating results.

In testing for a potential impairment of goodwill, we first compare the estimated fair value of each reporting unit with book value, including goodwill. If the estimated fair value exceeds book value, goodwill is considered not to be impaired and no additional steps are necessary. If, however, the fair value of the respective reporting unit is less than book value, then we are required to compare the carrying amount of the goodwill with its implied fair value. The estimate of implied fair value of goodwill may require independent valuations of certain internally generated and unrecognized intangible assets such as our subscriber base, software and technology and patents and trademarks. If the carrying amount of our goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to the excess.

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*Legal Contingencies*

We are currently involved in certain legal proceedings, as discussed in Note 21, Settlements of Disputes and Litigations and Note 22, Commitments and Contingencies Legal Proceedings to our Consolidated Financial Statements in Item 8 of this Form 10-K. For those matters where we have reached agreed-upon settlements, we have estimated the amount of those settlements and accrued the amount of the settlement in our financial statements. Because of the uncertainties related to both the amount and range of loss on the remaining pending litigation, we are unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions in our estimates of the potential liability could materially impact our results of operations and financial position.

**Results of Operations**

We have only a limited operating history, and our business model has been modified over the past three years. We have also recently announced additional changes to our business model. Our prospects should be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets such as the Internet. To address these risks, we must, among other things, be able to continue to:

- execute our business model, including the recently announced changes to that model;
- respond to highly competitive developments;
- attract, retain and motivate qualified personnel;
- implement and successfully execute our marketing plans;
- continue to upgrade our technologies;
- develop new distribution channels; and
- improve our operational and financial systems.

Although our revenue grew significantly in our early history, only recently have we have been able to begin to again generate growth. Therefore, you should not consider our historical growth indicative of future revenue levels or operating results. In order to reduce our operating cost structure to a sustainable level commensurate with our revenues, we have gone through four restructurings during the last four years. We have achieved net income in a few

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recent quarters, but we may not be able to sustain it. A more complete description of other risks relating to our business is set forth in Part I Item 1A. Risk Factors.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| **Consolidated Statement of Operations Data:** | | | |
| Revenue(1) | $ 252,622 | $ 216,860 | $ 198,227 |
| Related party revenue | | | 7,695 |
| Total revenue | 252,622 | 216,860 | 205,922 |
| Cost of revenue(1) | 56,188 | 50,829 | 56,569 |
| Gross profit | 196,434 | 166,031 | 149,353 |
| Operating expenses: | | | |
| Sales and marketing(1) | 91,071 | 88,388 | 101,122 |
| Product and web site development(1) | 22,059 | 15,362 | 17,065 |
| General and administrative(1) | 82,545 | 68,442 | 65,333 |
| Amortization of intangible assets(1) | 3,624 | 7,894 | 21,863 |
| Restructuring charges(1) | (1,331) | 1,316 | 4,100 |
| Impairment of long-lived assets | | | 26,999 |
| Litigation settlement | 1,750 | 2,168 | 63,600 |
| Total operating expenses | 199,718 | 183,570 | 300,082 |
| Loss from operations | (3,284) | (17,539) | (150,729) |
| Interest income (expense), net | 2,351 | 672 | (406) |
| Gain on settlement of distribution agreement | | | 104,071 |
| Other income, net | 623 | 2,366 | 691 |
| Loss from continuing operations | (310) | (14,501) | (46,373) |
| Gain on disposition of discontinued operations | 855 | 7,294 | 2,530 |
| Loss from discontinued operations | | (679) | (3,281) |
| Net income (loss) | 545 | (7,886) | (47,124) |
| Convertible preferred stock dividend | (311) | | |
| Net income (loss) applicable to common stockholders | $ 234 | $ (7,886) | $ (47,124) |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |

| | | | |
|---|---|---|---|
| Revenue | $ | $ | $ 1,119 |
| Cost of revenue | | | 16 |
| Sales and marketing | 291 | 301 | 3,795 |
| Product and web site development | | | 15 |
| General and administrative | 824 | 518 | 164 |
| Restructuring charges | | | 2,140 |
| | $ 1,115 | $ 819 | $ 7,249 |

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| | Year Ended December 31, 2005 | 2004 | 2003 |
|---|---|---|---|
| | (In thousands) | | |
| **As a Percentage of Revenue:** | | | |
| Revenue | 100% | 100% | 96% |
| Related party revenue | | | 4 |
| Total revenue | 100 | 100 | 100 |
| Cost of revenue | 22 | 23 | 27 |
| Gross profit | 78 | 77 | 73 |
| Operating expenses: | | | |
| Sales and marketing | 36 | 41 | 49 |
| Product and web site development | 9 | 7 | 8 |
| General and administrative | 33 | 32 | 32 |
| Amortization of intangible assets | 1 | 4 | 11 |
| Restructuring charges | (1) | | 2 |
| Impairment of long-lived assets | | | 13 |
| Litigation settlement | 1 | 1 | 31 |
| Total operating expenses | 79 | 85 | 146 |
| Loss from operations | (1) | (8) | (73) |
| Interest income (expense), net | 1 | | |
| Gain on settlement of distribution agreement | | | 50 |
| Other income, net | | 1 | |
| Loss from continuing operations | | (7) | (23) |
| Gain on disposition of discontinued operations | | 3 | 1 |
| Loss from discontinued operations | | | (1) |
| Net income (loss) | | (4) | (23) |
| Convertible preferred stock dividend | | | |
| Net income (loss) applicable to common stockholders | % | (4)% | (23)% |

**For the Years Ended December 31, 2005 and 2004**

***Revenue and Related Party Revenue***

Revenue increased approximately $35.8 million, or 16%, to $252.6 million for the year ended December 31, 2005 from revenue of $216.8 million for the year ended December 31, 2004. The increase in revenue was due to increases of $33.0 million in the Real Estate Services segment and $2.8 million in the Move-Related Services segment. These increases by segment are explained in the segment information below.

***Cost of Revenue***

Cost of revenue increased approximately $5.4 million, or 11%, to $56.2 million for the year ended December 31, 2005 from $50.8 million for the year ended December 31, 2004. The increase was primarily due to increases in personnel related costs of $2.1 million, increases in material and shipping costs of $2.7 million, increases in hosting and imaging costs of $1.0 million, and other cost increases of $1.1 million, offset by a $1.5 million decrease in royalties resulting from renegotiated contracts.

Gross margin percentage for the year ended December 31, 2005 was 78%, compared to 77% for the year ended December 31, 2004. The increase in gross margin percentage was primarily due to the factors mentioned above.

***Operating Expenses***

We have provided the major categories of changes in each of our operating expenses so our investors can better understand our operating expense structure.

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*Sales and Marketing.* Sales and marketing expenses, including non-cash stock-based charges, increased approximately $2.7 million, or 3%, to $91.1 million for the year ended December 31, 2005 from $88.4 million for the year ended December 31, 2004. The overall increase was primarily due to increases in personnel related costs of $5.0 million and increased marketing costs of $1.2 million, offset by reduced online and portal costs of $2.9 million due to renegotiated agreements and other cost reductions of $0.6 million.

*Product and Web site Development.* Product and web site development expenses increased approximately $6.7 million, or 44%, to $22.1 million for the year ended December 31, 2005 from $15.4 million for the year ended December 31, 2004. The increase was primarily due to an increase in consulting and personnel related costs to improve our product offerings in our HomeBuilder.com®, RENTNET®, Top Producer®, and Welcome Wagon® businesses.

*General and Administrative.* General and administrative expenses, including non-cash stock-based charges, increased approximately $14.1 million, or 21%, to $82.5 million for the year ended December 31, 2005 from $68.4 million for the year ended December 31, 2004. As a result of our obligation to advance expenses (including attorneys fees) to, and in certain cases indemnify, our former officers and the resulting settlement agreements with certain of these former officers as discussed in Note 21 Settlements of Disputes and Litigation and Note 22 Commitments and Contingencies , to our audited Consolidated Financial Statements contained in Item 8 of this Form 10-K, we recorded $15.6 million in expenses during the year ended December 31, 2005 compared to $7.2 million during the year ended December 31, 2004, an increase of $8.4 million. There were also increases in personnel related costs of $4.5 million and consulting costs of $3.7 million resulting from various corporate projects including the implementation of a new enterprise resource planning system and the planning of the relocation of our data center. These increases were offset by a $1.6 million reduction in accounting fees as the cost of compliance with Section 404 of Sarbanes-Oxley and associated audit costs were reduced during our second year of complying and other cost decreases of $0.9 million. Our general and administrative expenses continue to be larger as a percentage of our revenues than many companies of our size. These expenses have been impacted by our legal costs as well as our continuing costs of compliance with Section 404 of the Sarbanes-Oxley legislation. We will continue to focus on reducing these expenses, but some of these costs, such as our corporate office costs, may not be reduced for a number of years.

*Amortization of Intangible Assets.* Amortization of intangible assets was $3.6 million for the year ended December 31, 2005 compared to $7.9 million for the year ended December 31, 2004. The decrease in amortization was due to certain intangible assets becoming fully amortized during 2005.

*Restructuring Charges.* We recorded a $1.3 million reduction to our restructuring charges for the year ended December 31, 2005 as a result of changes in estimates for previous restructuring plans. These changes resulted primarily from a decrease in the estimate for charges related to our San Francisco office space and a change in the exchange rates decreasing our Canadian lease obligation as well as other revisions of estimated contractual liabilities.

Restructuring charges were $1.3 million for the year ended December 31, 2004 as a result of revisions to estimates of our sublease assumptions of our remaining San Francisco office space and changes in the exchange rates for our Canadian lease. There were no new restructuring plans approved during the years ended December 31, 2005 and 2004.

*Litigation Settlement.* We recorded litigation settlement charges of $1.8 million and $2.2 million for the years ended December 31, 2005 and December 31, 2004, respectively. These settlements are discussed in Note 22, Settlements of Disputes and Litigation to our audited Consolidated Financial Statements contained in Item 8 of this Form 10-K.

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

| | Year Ended December 31, | |
|---|---|---|
| | **2005** | **2004** |
| Sales and marketing | $ 291 | $ 301 |
| General and administrative | 824 | 518 |
| | $ 1,115 | $ 819 |

Stock-based charges remained relatively consistent, increasing by $296,000, to $1.1 million for the year ended December 31, 2005 compared to $0.8 million for the year ended December 31, 2004.

***Interest Income, Net***

Interest income, net, increased $1.7 million to net interest income of $2.4 million for the year ended December 31, 2005 from net interest income of $672,000 for the year ended December 31, 2004, primarily due to increases in short-term investment balances and higher interest rates on those balances.

***Other Income, Net***

Other income, net, decreased $1.7 million to net other income of $623,000 for the year ended December 31, 2005 compared to net other income of $2.4 million for the year ended December 31, 2004 primarily due to a $1.4 million gain realized on the sale of an office building owned by the Company during the year ended December 31, 2004. There was no sale of assets of similar magnitude during the year ended December 31, 2005.

***Gain on Disposition of Discontinued Operations and Loss from Discontinued Operations***

On October 6, 2004, we sold our Wyldfyre division for $8.5 million in cash and recorded a gain on disposition of discontinued operations of $5.7 million for the year ended December 31, 2004. On December 21, 2004, we sold our Computers for Tracts division for $2.5 million and recorded a gain on disposition of discontinued operations of $1.6 million for the year ended December 31, 2004. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Consolidated Financial Statements reflect these as discontinued operations. The results of operations for the Wyldfyre and Computer for Tracts divisions included operating losses of $679,000 for the year ended December 31, 2004. During the year ended December 31, 2005, we recorded a gain on disposition of discontinued operations of $855,000 as a result of the release of escrowed funds related to the sale of Wyldfyre.

***Income Taxes***

As a result of operating losses and our inability to recognize a benefit from our deferred tax assets, we have not recorded a provision for income taxes for the years ended December 31, 2005 and December 31, 2004. As of December 31, 2005, we had $1,012.6 million of net operating loss carryforwards for federal and foreign income tax purposes, which expire beginning in 2008. We have provided a full valuation allowance on our deferred tax assets, consisting primarily of net operating loss carryforwards, due to the likelihood that we may not generate sufficient taxable income during the carry-forward period to utilize the net operating loss carryforwards.

***Segment Information***

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 our internal organization and disclosure of revenue and operating expenses based upon internal accounting methods. During the fourth quarter of 2005, we revised our business segments to align with the way we are approaching the market: Real Estate Services for those products and services offered to industry professionals trying to reach new movers 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. As a result of these changes, we evaluate performance and allocate resources based on these two segments. We have reclassified previously reported segment data 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.

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; litigation settlement charges; impairment charges; stock-based charges; and acquisition and restructuring 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):

| | Year Ended December 31, 2005 | | | | Year Ended December 31, 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | Real Estate Services | Move-Related Services | Unallocated | Total | Real Estate Services | Move-Related Services | Unallocated | Total |
| Revenue | $ 181,324 | $ 71,298 | $ | $ 252,622 | $ 148,359 | $ 68,501 | $ | $ 216,860 |
| Cost of revenue | 27,902 | 26,346 | 1,940 | 56,188 | 28,213 | 21,784 | 832 | 50,829 |
| Gross profit (loss) | 153,422 | 44,952 | (1,940) | 196,434 | 120,146 | 46,717 | (832) | 166,031 |
| Sales and marketing | 60,125 | 29,644 | 1,302 | 91,071 | 59,039 | 28,637 | 712 | 88,388 |
| Product and web site development | 15,922 | 3,755 | 2,382 | 22,059 | 13,425 | 1,936 | 1 | 15,362 |
| General and administrative | 22,750 | 12,832 | 46,963 | 82,545 | 21,033 | 12,373 | 35,036 | 68,442 |
| Amortization of intangible assets | | | 3,624 | 3,624 | | | 7,894 | 7,894 |
| Restructuring charges | | | (1,331) | (1,331) | | | 1,316 | 1,316 |
| Litigation settlement | | | 1,750 | 1,750 | | | 2,168 | 2,168 |
| Total operating expenses | 98,797 | 46,231 | 54,690 | 199,718 | 93,497 | 42,946 | 47,127 | 183,570 |
| Income (loss) from operations | $ 54,625 | $ (1,279) | $ (56,630) | $ (3,284) | $ 26,649 | $ 3,771 | $ (47,959) | $ (17,539) |

***Real Estate Services***

Real Estate Services consists of products and services that promote and connect real estate professionals to consumers through our REALTOR.com®, HomeBuilder.com®, RENTNET® and SeniorHousingNet™.com web sites, in addition to our customer relationship management applications for REALTORS® offered through our Top Producer® business. Our revenue is derived from a variety of advertising and software services, including enhanced listings, company and property display advertising, customer relationship management applications and web site sales which we sell to those businesses interested in reaching our targeted audience or those professionals interested in being more effective in managing their contact with consumers.

Real Estate Services revenue increased approximately $33.0 million, or 22%, to $181.3 million for the year ended December 31, 2005, compared to $148.4 million for the year ended December 31, 2004. The revenue increase was primarily generated by a $28.3 million increase in our REALTOR.com® business driven by increased customer count and higher average spending per customer on our Enhanced Listings Product and a $7.2 million increase in our Top Producer® product offerings as our subscriber base for the on- line software continues to grow. These increases were partially offset by a reduction in revenue from our HomeBuilder.com® and RENTNET® businesses of $2.4 million. Real Estate Services revenue represented approximately 72% of total revenue for the year ended December 31, 2005 compared to 68% of the total revenue for the year ended December 31, 2004.

Real Estate Services expenses increased $5.0 million, or 4%, to $126.7 million for the year ended December 31, 2005 from $121.7 million for the year ended December 31, 2004. The increase was primarily due to a $6.7 million increase in personnel related costs resulting from increased sales and product development efforts and other operating cost increases of $1.5 million, offset by a $1.6 million reduction in royalty expense and a $1.6 million reduction in online distribution costs related to new agreements.

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Real Estate Services generated operating income of $54.6 million for the year ended December 31, 2005 compared to operating income of $26.6 million for the year ended December 31, 2004 primarily due to the significant growth in revenues. We have announced plans for additional investments in our HomeBuilder.com® and RENTNET® businesses that could negatively impact our operating income in this segment in the near future. We continue to seek increased revenue through new product offerings and new market opportunities.

***Move-Related Services***

Move-Related Services consists of advertising products and lead generation tools including display, test-link and rich advertising positions, directory products, price quote tools and content sponsorships on Homestore.com® and other related sites which we sell to those businesses interested in reaching our targeted audience. In addition, it includes our Welcome Wagon® new-mover direct mail advertising products and the sales of new home plans and related magazines through our Homestore Plans and Publications business.

Move-Related Services revenue increased $2.8 million, or 4%, to $71.3 million for the year ended December 31, 2005, compared to $68.5 million for the year ended December 31, 2004. The increase was primarily generated in our Welcome Wagon® business through new product offerings, including Early Advantage™ which was introduced in late 2004 and the National Book introduced in the fourth quarter of 2005, as well as continued growth in our Pinpoint product. Our on-line advertising revenue increased $1.4 million, offset by a $1.0 million reduction in revenues generated by home plans. Move-Related Services revenue represented approximately 28% of total revenue for the year ended December 31, 2005, compared to 32% of total revenue for the year ended December 31, 2004.

Move-Related Services expenses increased $7.8 million, or 12%, to $72.6 million for the year ended December 31, 2005 from $64.7 million for the year ended December 31, 2004. The increase was primarily due to increased cost of sales of $4.6 million associated with the new products described above, increased product development costs of $1.8 million as investments are being made to create new on-line consumer products, increased personnel related costs in sales and marketing of $2.7 million, offset by a $1.3 million reduction in online marketing and portal fees.

Move-Related Services generated an operating loss of $1.3 million for the year ended December 31, 2005 compared to operating income of $3.8 million for the year ended December 31, 2004 primarily due to factors outlined above. We have announced plans for additional investments in our Welcome Wagon® business that could negatively impact our operating results in this segment in the near future. We continue to seek increased revenue through new product offerings and new market opportunities. We expect that our recent acquisition of Moving.com will contribute to increased revenue in this segment in 2006, but may not contribute to profitability.

***Unallocated***

Unallocated expenses increased $8.7 million, or 18%, to $56.6 million for the year ended December 31, 2005 from $48.0 million for the year ended December 31, 2004. As a result of our obligation to advance expenses (including attorneys fees) to, and in certain cases indemnify, our former officers and the resulting settlement agreements with certain of these former officers as discussed in Note 21 Settlements of Disputes and Litigation, and Note 22, Commitments and Contingencies, to our audited Consolidated Financial Statements contained in Item 8 of this Form 10-K, we recorded $15.6 million in expenses during the year ended December 31, 2005 compared to $7.2 million in expenses during the year ended December 31, 2004, an increase of $8.4 million. There were increases in consulting and personnel related costs of $7.5 resulting from various corporate projects including the implementation of a new enterprise resource planning system and the planning of the relocation of our data center as well as other cost increases of $1.3 million, offset by a $4.3 million decrease in amortization as certain intangibles became fully amortized during 2005, a $2.6 million reduction in restructuring charges and a $1.6 million reduction in accounting fees as the cost of compliance with Section 404 of Sarbanes-Oxley and associated audit costs were reduced during our second year of complying. We continue to seek reductions in our corporate overhead expenses but cannot provide assurances that reductions will be achieved.

**For the Years Ended December 31, 2004 and 2003**

***Revenue and Related Party Revenue***

Revenue, including non-cash stock-based charges, increased approximately $10.9 million, or 5%, to $216.8 million for the year ended December 31, 2004 from revenue of $205.9 million for the year ended December 31, 2003. The increase in revenue was due to increases of $6.2 million in the Real Estate Services segment and $4.7 million in the Move-Related Services segment. These increases by segment are explained in the segment information below.

***Cost of Revenue***

Cost of revenue, including non-cash stock-based charges, decreased approximately $5.7 million, or 10%, to $50.8 million for the year ended December 31, 2004 from $56.5 million for the year ended December 31, 2003. The decrease was primarily due to our continued cost cutting efforts over the past three years that resulted in restructuring charges in the first and third quarters of 2002 and the fourth quarter of 2003. The reductions consisted of decreases in personnel related costs of $1.7 million and decreases in royalties and fees of $4.9 million, partially offset by increases in other direct costs of $0.9 million. The decrease in royalties and fees was primarily due to the Real Estate Services segment renewing its contracts with MLS s on terms that did not require us to pay future royalties.

Gross margin percentage for the year ended December 31, 2004 was 77%, compared to 73% for the year ended December 31, 2003. The increase in gross margin percentage was primarily due to the factors mentioned above.

***Operating Expenses***

We have provided the major categories of changes in each of our operating expenses so our investors can better understand our operating expense structure.

*Sales and Marketing.* Sales and marketing expenses, including non-cash stock-based charges, decreased approximately $12.7 million, or 13%, to $88.4 million for the year ended December 31, 2004 from $101.1 million for the year ended December 31, 2003. The overall decrease was primarily due to reductions in personnel related costs of $2.8 million due to our restructuring efforts, reductions in stock based charges of $4.6 million due to the expiration of previous marketing agreements, reductions in online marketing and portal costs of $2.6 million due to renegotiated agreements, reductions in depreciation expense of $1.4 million due to certain assets being fully depreciated, and other cost reductions of $1.3 million.

*Product and Web site Development.* Product and web site development expenses, including non-cash stock-based charges, decreased approximately $1.7 million, or 10%, to $15.4 million for the year ended December 31, 2004 from $17.1 million for the year ended December 31, 2003. The decrease was primarily due to decreases in personnel related costs of $1.0 million due to our restructuring efforts and other cost reductions of $0.7 million.

*General and Administrative.* General and administrative expenses, including non-cash stock-based charges, increased approximately $3.1 million, or 5%, to $68.4 million for the year ended December 31, 2004 from $65.3 million for the year ended December 31, 2003. The increase was primarily due to a $7.2 million loss contingency accrual for the potential advancement of legal costs of former officers and directors and increases in accounting fees of $2.6 million primarily due to the cost of compliance with Section 404 of the Sarbanes-Oxley Act. These increases were offset by decreases in personnel related costs of $4.3 million due to our restructuring efforts, decreases in bad debt expense of $1.9 million resulting from a closer alignment between our sales force compensation and tighter credit and collection policies, and other operating cost decreases of $0.5 million. Our general and administrative expenses continue to be larger as a percentage of our revenues than many companies of our size. These expenses have been impacted by our legal costs as well as our costs to prepare for compliance in 2004 with Section 404 of the Sarbanes-Oxley Act. We will continue to focus on reducing these expenses, but some of these costs, such as our corporate office costs, may not be reduced for a number of years and some, like our legal expense, are not totally within our control.

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*Amortization of Intangible Assets.* Amortization of intangible assets was $7.9 million for the year ended December 31, 2004 compared to $21.9 million for the year ended December 31, 2003. The decrease in amortization was due to the impairment of intangible assets charges under SFAS Nos. 144 and 142, during the year ended December 31, 2003 as well as certain intangible assets becoming fully amortized during 2004.

*Restructuring Charges.* Restructuring charges were $1.3 million for the year ended December 31, 2004 as a result of revisions to estimates of our sublease assumptions of our remaining San Francisco office space and changes in the exchange rates for our Canadian lease. There were no new restructuring plans approved during the year ended December 31, 2004.

Restructuring charges were $4.1 million for the year ended December 31, 2003, related to restructuring plans approved in fourth quarter of 2003. As part of this restructuring and integration plan, we undertook a review of our existing operations and elected to change our management structure and identified and notified approximately 95 employees whose positions with the Company were eliminated. The work force reductions affected approximately 7 in research and development, 17 in production, 37 in sales and marketing and 34 in administrative functions resulting in a charge of $3.5 million. In addition, we revised estimates on previous restructuring plans and recorded an additional charge of $560,000 to properly reflect our current estimates. The primary factor in this change in estimate was the continued slow demand for office space in San Francisco where we still have one floor of a large facility available for sublease.

*Impairment of Long-lived Assets.* In conjunction with certain business units continuing to perform below our expectations, as required by SFAS Nos. 144 and 142, we performed an impairment analysis as of September 30, 2003. Our analysis resulted in a charge of $13.0 million comprised of impairments of $11.7 million of identifiable intangible assets relating to our acquisitions of SpringStreet and Move.com, Inc., and $1.3 million of prepaid distribution expense. In addition, in conjunction with the settlement of the dispute with Cendant, we relinquished certain exclusive data rights and other rights. As a result, certain intangible assets associated with those rights no longer have value to us and, accordingly, we recorded an impairment charge of $12.2 million. Both charges were recorded in the quarter ended September 30, 2003. In the fourth quarter of 2003, specific events and changes in circumstances indicated a potential impairment. Those specific events included Homestore revising its implementation plan of its enterprise resource planning system. As a result of the revision, the decision was made to terminate the implementation of one aspect of the application. This decision resulted in a charge of $1.8 million. There were no impairment charges for the year ended December 31, 2004.

*Litigation Settlement.* We recorded a litigation settlement charge of $2.2 million in our operating results for the year ended December 31, 2004. During 2003, we reached a settlement in the Securities Class Action Lawsuit and recorded a charge of $63.6 million.

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

| | Year Ended December 31, 2004 | Year Ended December 31, 2003 |
|---|---|---|
| Revenue | $ | $ 1,119 |
| Cost of revenue | | 16 |
| Sales and marketing | 301 | 3,795 |
| Product and web site development | | 15 |

| | | |
|---|---|---|
| General and administrative | 518 | 164 |
| Restructuring charges | | 2,140 |
| | $ 819 | $ 7,249 |

Stock-based charges decreased by $6.4 million to $0.8 million for the year ended December 31, 2004 from $7.2 million for the year ended December 31, 2003. The decrease was primarily due to the termination of the previous agreement with AOL.

***Interest Income (Expense), Net***

Interest income (expense), net, increased $1.1 million to income of $672,000 for the year ended December 31, 2004, from net expense of $406,000 for the year ended December 31, 2003, primarily due to increases in short-term investment balances and higher interest rates on those balances.

***Gain on Settlement of Distribution Agreement***

In 2003, we entered into a new marketing agreement with AOL that resolved our dispute with AOL and terminated our obligations under the old agreement. In connection with the settlement, we reduced our accrued distribution obligation and other accrued liabilities by $189.9 million and $4.2 million, respectively, and allowed AOL to fully draw down on an existing $90.0 million letter of credit secured by restricted cash. Accordingly, we recorded a gain on settlement of the distribution agreement of $104.1 million for the year ended December 31, 2003. There were no similar transactions in 2004.

***Other Income, Net***

Other income, net, increased $1.7 million to $2.4 million for the year ended December 31, 2004 compared to $691,000 for the year ended December 31, 2003 primarily due to a $1.4 million gain realized on the sale of an office building owned by the Company and a $400,000 gain on the sale of other assets.

***Gain on Disposition of Discontinued Operations and Loss from Discontinued Operations***

On October 6, 2004, we sold our Wyldfyre division for $8.5 million in cash and recorded a gain on disposition of discontinued operations of $5.7 million. On December 21, 2004, we sold our Computers for Tracts division for $2.5 million and recorded a gain on disposition of discontinued operations of $1.6 million. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Consolidated Financial Statements reflect these as discontinued operations. The results of operations for the Wyldfyre and Computer for Tracts divisions included operating losses of $679,000 and $3.3 million for the years ended December 31, 2004 and December 31, 2003, respectively.

On April 2, 2002, we sold our ConsumerInfo division for $130.0 million in cash to Experian. We recorded a gain on disposition of discontinued operations of $2.5 million during the year ended December 31, 2003, as a result of our receipt of cash and stock valued at $230,000 released from the escrow related to our purchase of iPlace (of which our ConsumerInfo division was formerly a subsidiary) and our receipt of $2.3 million in cash from the escrow related to the sale of our ConsumerInfo division.

***Income Taxes***

As a result of operating losses and our inability to recognize a benefit from our deferred tax assets, we have not recorded a provision for income taxes for the years ended December 31, 2004 and December 31, 2003. We have provided a full valuation allowance on our deferred tax assets, consisting primarily of net operating loss carryforwards, due to the likelihood that we may not generate sufficient taxable income during the carry-forward period to utilize the net operating loss carryforwards.

***Segment Information***

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 our internal organization and disclosure of revenue and operating expenses based upon internal accounting methods. During the fourth quarter of 2005, we revised our business segments to align with the way we are approaching the market: Real Estate Services for those products and services offered by industry professionals trying to reach new movers 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. As a result of these changes, we evaluate performance and allocate resources based on two segments, consisting of Real Estate Services and Move-Related

Services. We have reclassified previously reported segment data 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.

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; litigation settlement charges; impairment charges; stock-based charges; and acquisition and restructuring 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):

| | Year Ended December 31, 2004 | | | | Year Ended December 31, 2003 | | | |
|---|---|---|---|---|---|---|---|---|
| | Real Estate Services | Move-Related Services | Unallocated | Total | Real Estate Services | Move-Related Services | Unallocated | Total |
| Revenue | $ 148,359 | $ 68,501 | $ | $ 216,860 | $ 142,183 | $ 63,739 | $ | $ 205,922 |
| Cost of revenue | 28,213 | 21,784 | 832 | 50,829 | 33,779 | 21,381 | 1,409 | 56,569 |
| Gross profit (loss) | 120,146 | 46,717 | (832) | 166,031 | 108,404 | 42,358 | (1,409) | 149,353 |
| Sales and marketing | 59,039 | 28,637 | 712 | 88,388 | 65,547 | 29,606 | 5,969 | 101,122 |
| Product and web site development | 13,425 | 1,936 | 1 | 15,362 | 15,115 | 1,929 | 21 | 17,065 |
| General and administrative | 21,033 | 12,373 | 35,036 | 68,442 | 21,854 | 12,767 | 30,712 | 65,333 |
| Amortization of intangible assets | | | 7,894 | 7,894 | | | 21,863 | 21,863 |
| Litigation settlement | | | 2,168 | 2,168 | | | 63,600 | 63,600 |
| Restructuring charges | | | 1,316 | 1,316 | | | 4,100 | 4,100 |
| Impairment of long-lived assets | | | | | | | 26,999 | 26,999 |
| Total operating expenses | 93,497 | 42,946 | 47,127 | 183,570 | 102,516 | 44,302 | 153,264 | 300,082 |
| Income (loss) from operations | $ 26,649 | $ 3,771 | $ (47,959) | $ (17,539) | $ 5,888 | $ (1,944) | $ (154,673) | $ (150,729) |

***Real Estate Services***

Real Estate Services consists of products and services that promote and connect real estate professionals to consumers through our REALTOR.com®, HomeBuilder.com®, RENTNET® and SeniorHousingNet™.com web sites, in addition to our customer relationship management applications for REALTORS® offered through our Top Producer® business. Our revenue is derived from a variety of advertising services, including enhanced listings, banner ads, sponsorships and other promotions of services which we sell to those businesses interested in reaching our targeted audience or those professionals interested in being more effective in managing their contacts with customers.

Real Estate Services revenue increased approximately $6.2 million, or 4%, to $148.4 million for the year ended December 31, 2004, compared to $142.2 million for the year ended December 31, 2003. The revenue increase was primarily generated by a $7.8 million increase in our REALTOR.combusiness driven by increased customer count and higher average spending per customer on our Enhanced Listings Products and a $3.2 million increase in our Top Producer® product offerings as our subscriber base for the on-line software continues to grow since its launch in late 2002. These increases were partially offset by a reduction in revenue from our HomeBuilder.com® and RENTNET® businesses of $4.8 million. Real Estate Services revenue represented approximately 68% of total revenue for the year ended December 31, 2004 compared to 69% of the total revenue for the year ended December 31, 2003.

Real Estate Services expenses decreased $14.6 million, or 11%, to $121.7 million for the year ended December 31, 2004 from $136.3 million for the year ended December 31, 2003. The decrease was primarily due to decreases in personnel related costs of $7.4 million due to our restructuring efforts, cost of revenue savings of $4.4 million due to a reduction in royalty expense resulting from new MLS agreements eliminating the requirement for future royalties, sales and marketing savings of $1.0 million due to reduced marketing spending, and general and administrative savings of $2.6 million due to improved collections resulting in lower bad debt expense. These decreases were partially offset by other operating expense increases of $0.8 million.

Real Estate Services generated operating income of $26.6 million for the year ended December 31, 2004 compared to operating income of $5.9 million for the year ended December 31, 2003 primarily due to factors outlined above.

***Move-Related Services***

Move-Related Services consists of advertising products and services on Homestore.com® and other related sites including a variety of advertising services, including banner ads, sponsorships, integrated content and text-based links and rich media applications which we sell to those businesses interested in reaching our targeted audience. In addition, it includes our Welcome Wagon® new-mover advertising products and the sale of new home plans and related magazines through our Homestore Plans and Publications business.

Move-Related Services revenue increased $4.8 million, or 7%, to $68.5 million for the year ended December 31, 2004, compared to $63.7 million for the year ended December 31, 2003. The increase was primarily due to a $3.6 million increase in advertising revenues with the remaining increase resulting from the new Pinpoint product introduced by Welcome Wagon® in early 2003. Move-Related Services revenue represented approximately 32% of total revenue for the year ended December 31, 2004, compared to 31% of total revenue for the year ended December 31, 2003.

Move-Related Services expenses decreased $1.0 million, or 1%, to $64.7 million for the year ended December 31, 2004 from $65.7 million for the year ended December 31, 2003. The decrease was primarily due to lower online marketing and portal fees.

Move-Related Services generated operating income of $3.8 million for the year ended December 31, 2004 compared to an operating loss of $1.9 million for the year ended December 31, 2003 primarily due to the factors outlined above.

***Unallocated***

Unallocated expenses decreased $106.7 million, or 69% to $48.0 million for the year ended December 31, 2004 from $154.7 million for the year ended December 31, 2003. The decrease was primarily due to a decrease in litigation settlement charges of $61.4 million, impairment of long-lived assets of $27.0 million, amortization of intangibles of $14.0 million due to the impairment charges taken in 2003 as well as certain intangible assets becoming fully amortized during 2004, sales and marketing savings of $5.3 million primarily due to reduced stock based charges as a direct result of the settlement of our agreement with AOL, $4.2 million in reduced personnel related costs due to our restructuring efforts, $2.8 million in reduced restructuring charges, $1.6 million in reduced depreciation expense as certain assets have become fully depreciated during 2004, and other operating cost reductions of $0.2 million. These reductions were offset by our $7.2 million accrual for the potential advancement of legal costs of former officers and directors and $2.6 million in increased accounting fees primarily due to the cost of compliance with Section 404 of the Sarbanes-Oxley Act.

**Liquidity and Capital Resources**

Net cash provided by continuing operating activities of $6.6 million for the year ended December 31, 2005 was attributable to the net loss from continuing operations of $0.3 million, offset by non-cash expenses including depreciation, amortization of intangible assets, provision for doubtful accounts and stock-based charges, aggregating to $13.0 million and increased by the gain on sale of fixed assets and other non-cash items of $0.3 million. Reducing the cash provided by continuing operating activities were the changes in operating assets and liabilities of

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approximately $5.8 million, primarily driven by a $4.2 million increase in accounts receivable resulting from new product offerings.

Net cash provided by continuing operating activities of $9.6 million for the year ended December 31, 2004 was attributable to the net loss from continuing operations of $14.5 million, offset by non-cash expenses including depreciation, amortization of intangible assets, provision for doubtful accounts, stock-based charges and other non-cash items, aggregating to $16.9 million and increased by the gain on sale of fixed assets of $2.2 million. Increasing the cash provided by continuing operating activities were the changes in operating assets and liabilities of approximately $9.4 million. These changes were primarily the result of the accrual of the legal costs associated with former officers and directors and the settlement of the AOL agreement.

Net cash used in investing activities of $105.0 million for the year ended December 31, 2005 was attributable to purchases of short- term investments of $116.3 million and increased capital expenditures of $11.2 million due to the build-out of a new data center, partially offset by maturities of short-term investments of $22.3 million and the sale of assets of $0.2 million. The actual cash used in investing activities was $11.0 million, as the $116.3 million and $22.3 million of investment activity is a classification requirement. These investments are available to us as cash in less than 60 days at any point in time and there is minimal principal risk.

Net cash used in investing activities of $20.4 million for the year ended December 31, 2004 was attributable to purchases of short- term investments of $24.5 million and increased capital expenditures due to the implementation of our new enterprise reporting system and increased capacity for our data center of $3.7 million, partially offset by the sale of assets of $6.7 million primarily due to the sale of our Welcome Wagonfacility and maturities of short-term investments of $1.0 million. The actual cash provided by investing activities was $3.0 million, as the $24.5 million and $1.0 million of investment activity was a classification requirement.

Net cash provided by financing activities of $95.9 million for the year ended December 31, 2005 was primarily attributable to $94.1 million in net proceeds from the sale of convertible preferred stock and $3.6 million due to the exercise of stock options, partially offset by $1.8 million in capital lease payments.

Net cash provided by financing activities of $1.8 million for the year ended December 31, 2004 was primarily attributable to $3.9 million due to the exercise of stock options, warrants and share purchases under the employee stock purchase plan, partially offset by $2.1 million in capital lease payments.

We have generated positive operating cash flows in each of the last two years. We have stated our intention to invest in our products, our infrastructure, and in branding Move.com[tm] although we have not determined the actual amount of those future expenditures. We have no material financial commitments other than those under capital and operating lease agreements and distribution and marketing agreements. We believe that our existing cash and short-term investments, and any cash generated from operations will be sufficient to fund our working capital requirements, capital expenditures and other obligations for the foreseeable future.

Our contractual obligations as of December 31, 2005 are as follows (in thousands):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | **Total Payments Due** | **Due in One Year or Less** | **Due in One to Three Years** | **Due in Three to Five Years** | **Over Five Years** |

| | | | | | |
|---|---|---|---|---|---|
| Capital lease obligations | $ 1,021 | $ 1,021 | $ | $ | $ |
| Operating lease obligations | 20,322 | 6,801 | 7,484 | 1,789 | 4,248 |
| Obligations under restructuring charges | 3,557 | 3,019 | 538 | | |
| Distribution agreements | 22,675 | 14,975 | 7,700 | | |
| Other purchase obligations | 7,710 | 1,542 | 3,084 | 3,084 | |
| Total | $ 55,285 | $ 27,358 | $ 18,806 | $ 4,873 | $ 4,248 |

In addition, we have commitments of approximately $1.1 million to purchase property, plant and equipment as of December 31, 2005.

Although our annual net losses have been decreasing and we anticipate becoming profitable in the future, we recently announced our new brand Move and certain business model changes that will require considerable investment with no assurances that our future financial performance will be enhanced by these new initiatives. Specifically, in February 2006, we announced plans to change our corporate name to Move, Inc. and introduced our new MOVE brand, under which we will promote three consumer offerings: REALTOR.com®, Welcome Wagon®, and a new website, Move.com™. We will incur considerable costs in introducing and maintaining our new brand, which may not produce the same or greater revenue than we have experienced in the past. In November 2005, we sold an aggregate of 100,000 shares of our Series B Preferred Stock for an aggregate purchase price of $100 million. For so long as the holders of Series B Preferred Stock hold at least one-sixth of these 100,000 shares of Series B Preferred Stock, we are generally not permitted, without obtaining the consent of holders representing at least a majority of the then outstanding shares of Series B Preferred Stock, to create or issue any equity securities that rank senior or on a parity with the Series B Preferred Stock with respect to dividend rights or rights upon our liquidation. In addition, our stockholders agreement with Elevation limits the amount of debt we can incur. If we need to raise additional capital through public or private financing, strategic relationships or other arrangements to execute our business plan, we would be restricted in the type of equity securities that we could offer and the amount of debt we can incur without the consent of Elevation. If we were unable to obtain Elevation s consent, we may not be able to raise additional capital in the amounts needed to fund our business or for terms that are desirable.

**Off-Balance Sheet Arrangements**

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose Homestore to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to Homestore.

**Recent Accounting Developments**

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, when implemented, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. In April 2005, the SEC adopted a new rule which defers the compliance date of SFAS No. 123(R) until 2006 for calendar year companies such as the Company. Consistent with the new rule, the Company intends to adopt SFAS No. 123(R) in the first quarter of 2006.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not anticipate that the adoption of SFAS No. 154 will have a material effect on the Company s financial condition, results of operations or liquidity.

**Item 7A.** ***Quantitative and Qualitative Disclosures About Market Risk***

*Interest Rate Risk.* Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We invest our excess cash in money-market funds, auction rate securities, debt instruments of high quality corporate issuers and debt instruments of the U.S. Government and its agencies, and, by policy, this limits the amount of credit exposure to any one issuer.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

**Item 8.** ***Financial Statements and Supplementary Data***

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Homestore, Inc.

We have audited the accompanying consolidated balance sheets of Homestore, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Homestore, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Homestore, Inc. s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
March 8, 2006

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## HOMESTORE, INC.

## CONSOLIDATED BALANCE SHEETS

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 13,272 | $ 14,819 |
| Short-term investments | 139,050 | 45,040 |
| Accounts receivable, net of allowance for doubtful accounts of $1,377 and $1,399 at December 31, 2005 and 2004, respectively | 15,966 | 12,532 |
| Other current assets | 19,485 | 12,498 |
| Total current assets | 187,773 | 84,889 |
| Property and equipment, net | 20,717 | 15,242 |
| Goodwill, net | 19,502 | 19,502 |
| Intangible assets, net | 14,264 | 17,864 |
| Restricted cash | 5,026 | 5,840 |
| Other assets | 1,744 | 7,167 |
| Total assets | $ 249,026 | $ 150,504 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 6,427 | $ 2,675 |
| Accrued expenses | 40,879 | 39,894 |
| Obligation under capital leases | 1,005 | |