

HOMESTORE INC
Form 10-K/A
April 29, 2005

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

Form 10-K/A

Amendment No. 1
to

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

For the fiscal year ended December 31, 2004

£ 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

Homestore, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

*(State or Other Jurisdiction of
Incorporation or Organization)*

95-4438337

(I.R.S. Employer Identification No.)

30700 Russell Ranch Road
Westlake Village, California

(Address of Principal Executive Offices)

91362

(Zip Code)

Registrant's telephone number, including area code:

(805) 557-2300

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

None

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

Common Stock, par value \$.001 per share

Warrants to purchase Common Stock, par value \$.001 per share

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

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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. R

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2). Yes R No

Aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2004*	\$ 500,696,146
Number of shares of common stock outstanding as of April 1, 2005	147,230,947

*Based on the closing price of the common stock of \$3.99 per share on that date, as reported on The NASDAQ National Market 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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PART III**Item 10. Directors and Executive Officers of the Registrant****Directors and Executive Officers**

The following table sets forth information regarding the directors and executive officers of Homestore, Inc. (the Company or we).

Name	Age	Position
Joe F. Hanauer	67	Chairman of the Board and Director
L. John Doerr	53	Director
William E. Kelvie	57	Director
Kenneth K. Klein(1)	61	Director
W. Michael Long	52	Chief Executive Officer and Director
Terrence M. McDermott	62	Director
Bruce G. Willison(1)	56	Director
V. Paul Unruh(1)(2)	56	Director
Jack D. Dennison	48	Chief Operating Officer
Lewis R. Belote, III	49	Chief Financial Officer
Allan P. Merrill	38	Executive Vice President, Strategy and Corporate Development
Michael R. Douglas	51	Executive Vice President, General Counsel and Secretary
Allan D. Dalton	56	President and Chief Executive Officer, REALTOR.com®
Stephen T. Feltner	34	President, Homebuilder.com
Sunil N. Mehrotra	55	President, Consumer Media Services
Maria L. Pietroforte	47	President, RentNet

(1) Member of audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934.

(2) The board of directors has determined that Mr. Unruh meets the requirements of an audit committee financial expert as defined in Securities and Exchange Commission (SEC) rules and regulations. Mr. Unruh meets the requirements for being independent as defined by SEC rules and regulations.

Our bylaws provide that the authorized number of directors may be fixed by resolution of the board of directors from time to time. Pursuant to our bylaws, the board has the authority to fix the number of directors that serve on the board. Currently, the board has fixed the number of directors at eight. Our bylaws also provide for the board to be divided into three classes as nearly equal in size as possible with staggered three-year terms. The term of office for Class I, Class II and Class III directors will expire at the annual meeting of stockholders to be held in 2006, 2007 and 2005, respectively, or upon a director's earlier death, resignation or removal. As required by the settlement agreement that we entered into with the California State Teachers Retirement System, the lead plaintiff in the securities class action lawsuit against us, to resolve all outstanding claims against us in that lawsuit, our board of directors intends to submit to our stockholders for their consideration and approval at our 2005 annual stockholders meeting an amendment to our Amended and Restated Certificate of Incorporation, which, if approved by the stockholders, will eliminate the classification of our board of directors. If the amendment is approved by the stockholders, the terms of the directors elected at the annual stockholders meeting in each of 2005, 2006 and 2007 will expire in 2008, and beginning with our 2008 annual stockholders meeting, all directors will be elected at each annual meeting for a term of one year.

As previously disclosed, on March 15, 2005, Terrence M. McDermott, one of our directors, provided us with notice of his intention to resign as a director effective as of our 2005 annual stockholders meeting. Mr. McDermott's term is scheduled to expire at our annual stockholders meeting in 2006. Since December 2000, Mr. McDermott has served as the National Association of Realtors® (the NAR) representative on our board of directors. By virtue of its ownership of our sole outstanding share of Series A preferred stock, the NAR has the right to elect one of our directors. In addition, if there is any vacancy in the office of a director elected by the holder of the Series A preferred stock, then a director to hold office for the unexpired term of such director may be elected by the vote or

written consent of the holder of the Series A preferred stock. The NAR has informed us that it intends to elect Alan Yassky as its representative to serve on our board of directors effective as of Mr. McDermott's resignation. Mr. Yassky currently serves as the NAR's representative on the board of directors of RealSelect, Inc., a wholly-owned subsidiary of the Company.

Joe F. Hanauer has served as one of our directors since November 1996, as vice chairman of the board from November 2001 to January 2002, chairman of the board since January 2002 and lead independent director since December 2004; he was the National Association of REALTORS® representative on the board through November 2000. Mr. Hanauer is a Class III director. Since 1988, Mr. Hanauer, through Combined Investments, L.P., has directed investments in companies primarily involved in real estate and financial services. Mr. Hanauer is a former chairman and director of Grubb & Ellis Company and a former chairman of Coldwell Banker Residential Group, Inc. Mr. Hanauer is a director of MAF Bancorp, Inc., a trustee of each of Calamos Investment Trust, Calamos Advisors Trust and Calamos Convertible Opportunities and Income Fund, and a member of the National Association of REALTORS®.

L. John Doerr has served as one of our directors since August 1998. Mr. Doerr is a Class III director. Mr. Doerr has been a general partner of Kleiner Perkins Caufield & Byers, a venture capital firm, since 1980. Prior to his tenure at Kleiner Perkins, Mr. Doerr was employed by Intel Corporation for five years. He serves on the board of directors of Amazon.com, Inc., Google Inc., Intuit Inc., palmOne, Inc. and Sun Microsystems, Inc.

William E. Kelvie has served as one of our directors since August 1998. Mr. Kelvie is a Class II director. He has served as chief executive officer of Overture Corporation, an information technology company, since July 2000. Prior to his tenure at Overture Corporation, Mr. Kelvie was the executive vice president and chief information officer responsible for information technology systems at the Federal National Mortgage Association (Fannie Mae), the world's largest non-bank financial services company, from 1992 to 2000. He then served as special adviser to the chief executive officer of Fannie Mae until January 2003. Mr. Kelvie joined Fannie Mae in 1990 as senior vice president and chief information officer. Prior to his tenure at Fannie Mae, Mr. Kelvie was a partner with Nolan, Norton & Co., a management consulting company specializing in information technology strategies and plans. He also served in various capacities with The Dexter Corporation, a specialized manufacturing company, and The Travelers Insurance Company, an insurance and financial services company.

Kenneth K. Klein has served as one of our directors since August 1998. Mr. Klein is a Class II director. He is president and chief executive officer of a privately held group of companies involved in diversified residential and light commercial construction and land development, including Kleinco Construction Services, Inc. of which Mr. Klein has served as president and chief executive officer since 1980. Mr. Klein was national vice president of the National Association of Home Builders during the calendar years 1999 and 2000.

W. Michael Long has served as our chief executive officer and as one of our directors since January 2002. Mr. Long is a Class III director. From November 1999 to April 2001, Mr. Long served as chairman of the board and as a director of WebMD Corporation (formerly Healthon/WebMD Corporation), a provider of healthcare information services and technology solutions. From July 1997 to November 1999, Mr. Long served as chief executive officer of Healthon Corporation. From August 1996 to July 1997, Mr. Long served as president and chief executive officer of CSC Continuum, Inc., a unit of Computer Sciences Corporation. Prior to its acquisition by CSC, Mr. Long was president and chief executive officer of The Continuum Company, Inc.

Terrence M. McDermott has served as one of our directors (as the NAR representative) since December 2000. Mr. McDermott is a Class I director. He has served as executive vice president/chief executive officer of the National Association of REALTORS® since 1997. From 1993 to 1997, Mr. McDermott served as executive vice president and chief executive officer of the American Institute of Architects. Mr. McDermott was president of Cahners Publishing

Co. from 1987 to 1993, a firm he joined in 1969.

Bruce G. Willison has served as one of our directors since December 2002. Mr. Willison is a Class I director. Since 1999, Mr. Willison has served as Dean of the UCLA Anderson School of Management. This appointment followed a 26-year career in the banking industry, most recently as president and chief operating officer of H.F. Ahmanson & Co., the parent company of Home Savings of America. Prior to that, Mr. Willison held several executive positions at First Interstate Bancorp, including chairman and chief executive officer of First Interstate s

Oregon operation and chairman, president, and chief executive officer of First Interstate Bank of California, as well as vice chairman of the bank's holding company, First Interstate Bancorp. Mr. Willison began his banking career at Bank of America Corp. in 1973. Mr. Willison is a director of Health Net, Inc., an integrated managed care organization.

V. Paul Unruh has served as one of our directors since May 2003. Mr. Unruh is a Class I director. For 25 years, Mr. Unruh worked at Bechtel, a privately held global engineering and construction services organization. Prior to his retirement in 2002, Mr. Unruh served as vice chairman of Bechtel Group, Inc. from January 2001 to December 2002 and president of Bechtel Enterprises, a development and financing subsidiary, from July 1997 to January 2001. His previous responsibilities at Bechtel included both operating and financial positions, including chief financial officer, treasurer and controller. Mr. Unruh is currently a director of VERITAS Software Corporation and Heidrick and Struggles International, Inc., a provider of senior-level executive search and leadership services. Prior to joining Bechtel in 1978, Mr. Unruh practiced as a certified public accountant with what is now PricewaterhouseCoopers LLP for seven years.

Jack D. Dennison has served as our chief operating officer since January 2002. From July 1998 to January 2001, Mr. Dennison served as executive vice president, general counsel and secretary of WebMD Corporation. From 1996 to July 1998, Mr. Dennison served as vice president and deputy general counsel to Computer Sciences Corporation. Prior to that time, Mr. Dennison was general counsel at The Continuum Company, Inc.

Lewis R. Belote, III has served as our chief financial officer since January 2002. From May 1998 to April 2001, Mr. Belote served as senior vice president, finance of WebMD Corporation. From June 1996 to May 1998, Mr. Belote served as senior vice president and chief financial officer for ActaMed Corporation. Prior to 1996, Mr. Belote served for twelve years with the accounting firm of Ernst & Young LLP.

Allan P. Merrill has served as executive vice president of strategy and corporate development since October 2001. From April 2000 to October 2001, Mr. Merrill was president of Homebuilder.com, one of our consumer websites. Mr. Merrill joined us following a 13-year tenure, from 1987 to March 2000, with the investment banking firm Warburg Dillon Read (now UBS Investment Bank), where he was a managing director and served most recently as co-head of the Global Resources Group, overseeing the construction and building materials, chemicals, forest products, mining and energy industry groups. Mr. Merrill is a member of the Policy Advisory Board of the Joint Center for Housing Studies at Harvard University.

Michael R. Douglas has served as our executive vice president, general counsel, and secretary since October 2002. From 1997 to October 2002, Mr. Douglas served as a product liability consultant. From 1987 to 1997, Mr. Douglas was senior vice president, general counsel and secretary at Fibreboard Corporation. Mr. Douglas has also served as director of law of the Asbestos Claims Facility, litigation counsel for Jim Walter Corporation and as an attorney in private practice.

Allan D. Dalton has served as president and chief executive officer of REALTOR.com®, one of our consumer websites and the official Internet site of the National Association of REALTORS®, since October 2002. From August 2002 to October 2002, Mr. Dalton served as executive vice president of Coldwell Banker New England Metro, the largest real estate services organization in New England. From January 1998 to August 2002, Mr. Dalton was senior vice president of NRT, a residential real estate brokerage company and a subsidiary of Cendant Corporation. Mr. Dalton's 20-plus year career in the real estate industry includes 12 years as president and co-owner of an independent real estate brokerage with more than 20 offices. He has also served as executive vice president of Coldwell Banker Hunneman.

Stephen T. Feltner has served as president of Homebuilder.com, one of our consumer websites and the official new homes site of the National Association of Home Builders, since December 2004. Mr. Feltner has been with us since

1999, holding key management positions in both operations and finance, including Vice President of Operations from February 2003 to December 2004, Assistant to the Chief Executive Officer from June 2002 to February 2003, Vice President of Strategic Planning from August 2001 to June 2002, Director of Strategic Planning from August 2000 to August 2001 and Manager of Sales Operations from April 1999 to July of 2000. Prior to joining us, Mr. Feltner served as the director of operations at Arch Wireless (formerly PageNet, Inc.), based in Los

Angeles, California. A graduate of the UCLA Anderson School of Management, Mr. Feltner holds a Master of Business Administration degree.

Sunil N. Mehrotra has served as president of Consumer Media Services, which includes our Welcome Wagon, Homeplans and Retail advertising businesses, since December 2004. Since 2000 he has served as adjunct professor of marketing management and strategy management in the MBA program at the Graziadio School of Business Management at Pepperdine University. Mr. Mehrotra also founded KnowledgeLINKS in 1996, a collaborative Internet commerce company, and served as its Chairman until January 2002. Prior to 1996, Mr. Mehrotra served as executive vice president of Harman International's consumer group, general manager of the RCA brand for Thomson Consumer Electronics, vice president segment manager for Chase Manhattan Bank, managing consumer marketing and was employed by General Electric as a product manager.

Maria L. Pietroforte has served as president of RentNet, one of our consumer websites, since September 2004. Ms. Pietroforte formerly served as president of KSI Management Corporation, one of Greater Washington D.C.'s largest developers of rental properties from 2001 to June 2004. Prior to that, Ms. Pietroforte was president of E&S Ring Company from 1997 to 2001, one of the largest apartment managers in Los Angeles.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and beneficial owners of more than 10% of our common stock (the Reporting Persons), to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of Section 16(a) reports received or written representations from certain Reporting Persons, we believe that all reporting requirements under Section 16(a) for the fiscal year ended December 31, 2004 were met in a timely manner by the Reporting Persons.

Code of Conduct and Business Ethics

We have a strong commitment to business ethics and to complying with the laws that govern the conduct of our businesses. We believe that a commitment to honesty and integrity is a valuable asset that builds trust with our customers, suppliers, employees, stockholders and the communities in which we operate. To implement our commitment, we have developed a code of conduct and business ethics. The code applies to all of our employees, directors, officers, agents and consultants. We have also established a compliance program that is intended to ensure that we have in place policies and systems designed to prevent and detect violations of the code or any applicable law, policy or regulation. A copy of the code is available at our website at http://media.corporate-ir.net/media_files/IROL/11/111114/gov/HOMS_COC.pdf.

We will post on our website any amendments to, or waivers from, a provision of the code that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, and that relates to any of the following: (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us; (iii) compliance with applicable governmental laws, rules and regulations; (iv) the prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; or (v) accountability for adherence to the code.

Item 11. Executive Compensation**Summary Compensation Table**

The following table sets forth all compensation paid during 2004, 2003, and 2002 to all persons who served as our chief executive officer during 2004 and our other five most highly compensated executive officers during 2004. We collectively refer to these persons as the named executive officers.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Securities		Restricted All Other Compensation(\$)
		Salary(\$)	Sign-On	Bonus(\$) Performance Compensation(\$)	Other Annual Options(#)	Underlying Shares(\$)	
W. Michael Long(1) Chief Executive Officer	2004	500,000		500,000	1,000,000	250,000(2)	
	2003	500,000		500,000		300,000(3)	
	2002	480,769	500,000(4)	500,000	5,200,000		
Jack D. Dennison(1) Chief Operating Officer	2004	400,000		400,000	500,000		
	2003	400,000		425,000			6,775(5)
	2002	384,616	400,000(4)	400,000	2,600,000		
Allan D. Dalton(6) President and CEO, REALTOR.com®	2004	325,000		406,250	350,000		
	2003	325,000		425,000	17,526(7)		90,933(8)
	2002	68,750		81,250	28,249(7)	1,200,000	53,751(5)
Lewis R. Belote, III(1) Chief Financial Officer	2004	350,000		350,000	350,000		
	2003	350,000		350,000			
	2002	336,539	350,000(4)	350,000	1,730,000		
Michael R. Douglas(6) Executive Vice President and General Counsel	2004	325,000		325,000	350,000		
	2003	325,000		350,000	78,292(7)		156,129(9)
	2002	68,750		81,250	25,227(7)	1,200,000	41,198(5)
Allan P. Merrill Executive Vice President, Strategy and Corporate Development	2004	325,000		325,000	350,000		
	2003	325,000		350,000	550,001(10)		
	2002	315,385		500,000	1,150,000		

(1) The executive officer joined us in January 2002.

(2) Represents 115,740 shares of restricted stock granted to Mr. Long on March 17, 2005 in consideration for his services to us during 2004. These shares will vest in full on March 17, 2008. The aggregate number of restricted stock held by Mr. Long as of December 31, 2004 was 70,922. The aggregate value of restricted stock held by Mr. Long as of December 31, 2004 is \$214,894.

- (3) Represents 70,922 shares of restricted stock granted to Mr. Long on March 31, 2004 in consideration for his services to us during 2003. These shares will vest in full on March 31, 2007.
- (4) We provided this sign-on bonus to the executive officer as part of his employment agreement in order to attract him to join us.

- (5) Represents relocation expenses paid by us.
- (6) The executive officer joined us in October 2002.
- (7) Represents amounts reimbursed for the payment of taxes and tax gross-up amounts associated with relocation expenses.
- (8) Represents \$13,357 of expense paid by us for travel on an airplane indirectly owned by Mr. Long, and \$77,576 of relocation expenses paid by us.
- (9) Represents \$100,000 payment for the expected loss on the sale of executive officer's residence in connection with relocation and \$56,129 of relocation expenses paid by us.
- (10) 50,001 of which were granted in connection with an option exchange offer in which we offered our employees the opportunity to exchange all outstanding options granted to them (or assumed by us) between August 5, 1999 (the date of our initial public offering) and December 31, 2001 for new options.

Stock Option Grants in 2004

The following table sets forth grants of stock options to the named executive officers in 2004.

All options granted to the named executive officers in 2004 are either incentive stock options or nonqualified stock options. The options expire ten years from the date of grant and were granted at an exercise price equal to the fair market value of our common stock on the date of grant.

Potential realizable values are computed by (a) multiplying the number of shares of common stock subject to a given option by the exercise price per share, (b) assuming that the aggregate stock value derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire ten-year term of the option, and (c) subtracting from that result the aggregate option exercise price. The 5% and 10% assumed annual rates of stock price appreciation are provided in accordance with the rules of the SEC and do not represent our estimate or projection of future common stock prices.

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in 2004	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for Option Term (\$)	
					5%	10%
W. Michael Long	750,000(1)	8.87	4.09	5/11/2014	1,929,134	4,888,805
	250,000(2)	2.96	4.09	5/11/2014	643,045	1,629,602
Jack D. Dennison	375,000(1)	4.43	4.09	5/11/2014	964,567	2,444,402
	125,000(2)	1.48	4.09	5/11/2014	321,522	814,801
Allan D. Dalton	262,500(1)	3.10	4.09	5/11/2014	675,197	1,711,082
	87,500(2)	1.03	4.09	5/11/2014	225,066	570,361
Lewis R. Belote, III	262,500(1)	3.10	4.09	5/11/2014	675,197	1,711,082

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	87,500(2)	1.03	4.09	5/11/2014	225,066	570,361
Michael R. Douglas	262,500(1)	3.10	4.09	5/11/2014	675,197	1,711,082
	87,500(2)	1.03	4.09	5/11/2014	225,066	570,361
Allan P. Merrill	262,500(1)	3.10	4.09	5/11/2014	675,197	1,711,082
	87,500(2)	1.03	4.09	5/11/2014	225,066	570,361

(1) Option vests ratably on a quarterly basis over four years beginning on May 11, 2004

(2) Option vests in full either on (i) May 11, 2007 if the Company meets certain performance criteria for the fiscal year ended December 31, 2006, or (ii) May 11, 2009 if the Company fails to meet such performance criteria.

The percentage of total options granted to employees is based on options to purchase a total of 8,459,534 shares of our common stock granted during 2004. If exercised, the options granted to employees would represent 5.76% of the total number of shares of our common stock outstanding at December 31, 2004.

Aggregated Option Exercises in 2004 and Option Values at December 31, 2004

The following table sets forth the number of shares acquired and the value realized upon exercise of stock options during 2004 and the number of shares of common stock subject to exercisable and unexercisable stock options held as of December 31, 2004 by the named executive officers. Also reported are values of in-the-money options, which represent the positive spread between the exercise prices of outstanding stock options and the fair market value of \$3.03 per share, which was the closing price of our common stock on December 31, 2004.

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at 12/31/04		Value of Unexercised In-the-Money Options at 12/31/04 (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
W. Michael Long			4,237,500	1,962,500	5,262,562	1,341,437
Jack D. Dennison			2,118,750	981,250	2,631,281	670,719
Allan D. Dalton	250,000	930,872	547,394	752,606	1,358,496	1,149,504
Lewis R. Belote, III			1,411,405	668,595	1,750,813	446,287
Michael R. Douglas			795,311	754,689	2,012,997	1,115,003
Allan P. Merrill			1,035,936	1,014,065	976,207	387,294

Employment-Related Agreements**Mr. Long**

We entered into an employment agreement with Mr. Long dated as of March 6, 2002 that provides for his employment as our chief executive officer.

Mr. Long's employment agreement provides for annual base compensation of \$500,000. We provided Mr. Long a signing bonus of \$500,000 to be paid in four equal quarterly installments, the last of which was paid on January 31, 2003. Under his 2004 executive bonus plan, Mr. Long was also eligible to receive a performance bonus of up to twice his annual base compensation for 2004; he received \$500,000 and 115,740 shares of restricted stock which will vest in full on March 17, 2008.

We granted Mr. Long a Sign-On Option, which fully vested on January 24, 2002, to purchase 1,300,000 shares of our common stock at an exercise price of \$1.76 per share. We also granted Mr. Long a Principal Option to purchase 3,900,000 shares of our common stock at an exercise price of \$1.76 per share. Mr. Long's Principal Option vests ratably on a monthly basis over 48 months beginning on February 1, 2002.

The Sign-On Option and Principal Option may be exercised after a termination of employment (but no later than their expiration date, January 23, 2012) as follows: (i) within 90 days after termination for cause; (ii) within one year after voluntary termination prior to a change in control; or (iii) within three years after termination for any other reason.

We agreed to provide residential accommodations to Mr. Long within reasonable commuting distance of our offices, with costs not to exceed \$5,000 per month. We will reimburse Mr. Long the actual and reasonable fixed operating costs and the actual and reasonable business related variable operating costs of an airplane indirectly owned

by him; Mr. Long was reimbursed approximately \$1.4 million for the use of this airplane in 2004. We also will reimburse him for actual and reasonable business expenses. If the foregoing reimbursements are subject to

federal or state income taxes, we will pay an amount necessary to place Mr. Long in the same after-tax position as he would have been in had no such taxes been imposed.

If there is a termination of employment without cause, a termination for death or disability or a constructive termination of employment, whether or not in connection with a change in control, subject to his execution of a release of claims, Mr. Long will receive his annual base salary and his full annual bonus for the fiscal year in which the termination occurs, payable in equal installments over twelve months. In the event of termination without cause, constructive termination, death or disability, Mr. Long's Principal Option will vest and become exercisable.

In the event that any portion of the amounts payable are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, we will pay Mr. Long an amount necessary to place him in the same after-tax position as he would have been in had no such excise tax been imposed.

On May 11, 2004, we granted Mr. Long options to purchase 1,000,000 shares of our common stock at an exercise price of \$4.09 per share. An option to purchase 750,000 shares of our common stock vests ratably on a quarterly basis over four years beginning on May 11, 2004, and an option to purchase 250,000 shares of our common stock vests in full either on (i) May 11, 2007, if the Company meets certain performance criteria for the fiscal year ended December 31, 2006, or (ii) May 11, 2009, if the Company fails to meet such performance criteria. In the event of termination upon a change of control, or termination without cause in the absence of a change of control, subject to his provision of transition services if requested and his execution of a release of claims, such options will vest and become exercisable for a period of one year following such termination.

Mr. Dennison

We entered into an employment agreement with Mr. Dennison dated as of March 6, 2002 that provides for his employment as our chief operating officer.

Mr. Dennison's employment agreement provides for annual base compensation of \$400,000. We provided Mr. Dennison a signing bonus of \$400,000 to be paid in four equal quarterly installments, the last of which was paid on January 31, 2003. Under his 2004 executive bonus plan, Mr. Dennison was also eligible to receive a performance bonus of up to twice his annual base compensation for 2004; he received \$400,000.

We granted Mr. Dennison a Sign-On Option, which fully vested on January 24, 2002, to purchase 650,000 shares of our common stock at an exercise price of \$1.76 per share. We also granted Mr. Dennison a Principal Option to purchase 1,950,000 shares of our common stock at an exercise price of \$1.76 per share. Mr. Dennison's Principal Option vests ratably on a monthly basis over 48 months beginning on February 1, 2002.

The Sign-On Option and Principal Option may be exercised after a termination of employment (but no later than their expiration date, January 23, 2012) as follows: (i) within 90 days after termination for cause; (ii) within one year after voluntary termination prior to a change in control; or (iii) within three years after termination for any other reason.

We agreed to provide residential accommodations to Mr. Dennison for up to two years within reasonable commuting distance of our offices, with costs not to exceed \$5,000 per month. Mr. Dennison relocated to our headquarters in 2003 at which time we ceased providing him with residential accommodations. We reimburse Mr. Dennison for actual and reasonable business expenses. In addition, Mr. Dennison was reimbursed for reasonable expenses associated with his relocation to our headquarters as described above under Summary Compensation Table. If the foregoing reimbursements are subject to federal or state income taxes, we will pay an amount necessary to place Mr. Dennison in the same after-tax position as he would have been in had no such taxes been imposed.

If there is a termination of employment without cause, a termination for death or disability or a constructive termination of employment, whether or not in connection with a change in control, subject to his execution of a release of claims, Mr. Dennison will receive his annual base salary and his full annual bonus for the fiscal year in which the termination occurs, payable in equal installments over twelve months. In the event of termination without

cause, constructive termination, death or disability, Mr. Dennison's Principal Option will vest and become exercisable.

In the event that any portion of the amounts payable are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, we will pay Mr. Dennison an amount necessary to place him in the same after-tax position as he would have been in had no such excise tax been imposed.

On May 11, 2004, we granted Mr. Dennison options to purchase 500,000 shares of our common stock at an exercise price of \$4.09 per share. An option to purchase 375,000 shares of our common stock vests ratably on a quarterly basis over four years beginning on May 11, 2004, and an option to purchase 125,000 shares of our common stock vests in full either on (i) May 11, 2007, if the Company meets certain performance criteria for the fiscal year ended December 31, 2006, or (ii) May 11, 2009, if the Company fails to meet such performance criteria. In the event of termination upon a change of control, or termination without cause in the absence of a change of control, subject to his provision of transition services if requested and his execution of a release of claims, such options will vest and become exercisable for a period of one year following such termination.

Mr. Dalton

On September 30, 2002, we entered into an executive retention and severance agreement with Mr. Dalton pursuant to which he agreed to serve as President, REALTOR.com®. Additionally, we entered into a compensation arrangement with Mr. Dalton that provides for annual base compensation of \$325,000. Under his 2004 executive bonus plan, Mr. Dalton was also eligible to receive a performance bonus of up to twice his annual base compensation for 2004; he received \$406,250.

We reimburse Mr. Dalton for actual and reasonable business expenses. In addition, as described above under Summary Compensation Table, Mr. Dalton was reimbursed for reasonable expenses associated with his relocation to our headquarters. This included taxes and tax gross-up amounts associated with payments made to relocate Mr. Dalton to our headquarters. We purchased a residence in the fourth quarter of 2002 from Mr. Dalton for \$1.95 million, based on its appraised value, to facilitate his move to our headquarters. We sold this house in 2004 for approximately \$1.4 million.

Effective October 8, 2002, we granted Mr. Dalton an option to purchase 1,200,000 shares of our common stock at an exercise price of \$0.39 per share. This option vested as to 250,000 shares on the date of grant and the remainder vests ratably on a monthly basis over 48 months beginning on November 1, 2002.

In the event of a termination without cause, subject to his provision of transition services if requested and his execution of a release of claims, Mr. Dalton will receive a lump sum payment in an amount equal to his annual base salary, payment of his continued medical coverage premiums for up to 12 months, and a payment in an amount equal to 50% of his target bonus for the year in which his termination occurs (the Minimum Bonus Payment). In addition, if the termination occurs after June 30 of any year, and before January 1 of the next year, and our financial performance goals for the year have been achieved, we will pay Mr. Dalton a prorated portion of his target bonus less his Minimum Bonus Payment. All equity awards Mr. Dalton was granted by us prior to September 30, 2002 will vest and any such options will remain exercisable for a period of 12 months following the later of his termination date or the end of any transition services period.

On May 11, 2004, we granted Mr. Dalton options to purchase 350,000 shares of our common stock at an exercise price of \$4.09 per share. An option to purchase 262,500 shares of our common stock vests ratably on a quarterly basis over four years beginning on May 11, 2004, and an option to purchase 87,500 shares of our common stock vests in full either on (i) May 11, 2007, if the Company meets certain performance criteria for the fiscal year ended December 31, 2006, or (ii) May 11, 2009, if the Company fails to meet such performance criteria. In the event of

termination upon a change of control, or termination without cause in the absence of a change of control, subject to his provision of transition services if requested and his execution of a release of claims, such options will vest and become exercisable for a period of one year following such termination.

Mr. Belote

We entered into an employment agreement with Mr. Belote dated as of March 6, 2002 that provides for his employment as our chief financial officer.

Mr. Belote's employment agreement provides for annual base compensation of \$350,000. We provided Mr. Belote a signing bonus of \$350,000 to be paid in four equal quarterly installments, the last of which was paid on January 31, 2003. Under his 2004 executive bonus plan, Mr. Belote was also eligible to receive a performance bonus of up to twice his annual base compensation for 2004; he received \$350,000.

We granted Mr. Belote a Sign-On Option, which fully vested on January 24, 2002, to purchase 432,500 shares of our common stock at an exercise price of \$1.76 per share. We also granted Mr. Belote a Principal Option to purchase 1,297,500 shares of our common stock at an exercise price of \$1.76 per share. Mr. Belote's Principal Option vests ratably on a monthly basis over 48 months beginning on February 1, 2002.

The Sign-On Option and Principal Option may be exercised after a termination of employment (but no later than their expiration date, January 23, 2012) as follows: (i) within 90 days after termination for cause; (ii) within one year after voluntary termination prior to a change in control; or (iii) within three years after termination for any other reason.

We agreed to provide residential accommodations to Mr. Belote within reasonable commuting distance of our offices, with costs not to exceed \$5,000 per month. We will reimburse Mr. Belote for actual and reasonable business expenses. If the foregoing reimbursements are subject to federal or state income taxes, we will pay an amount necessary to place Mr. Belote in the same after-tax position as he would have been in had no such taxes been imposed.

If there is a termination of employment without cause, a termination for death or disability or a constructive termination of employment, whether or not in connection with a change in control, subject to his execution of a release of claims, Mr. Belote will receive his annual base salary and his full annual bonus for the fiscal year in which the termination occurs, payable in equal installments over twelve months. In the event of termination without cause, constructive termination, death or disability, Mr. Belote's Principal Option will vest and become exercisable.

In the event that any portion of the amounts payable are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, we will pay Mr. Belote an amount necessary to place him in the same after-tax position as he would have been in had no such excise tax been imposed.

On May 11, 2004, we granted Mr. Belote options to purchase 350,000 shares of our common stock at an exercise price of \$4.09 per share. An option to purchase 262,500 shares of our common stock vests ratably on a quarterly basis over four years beginning on May 11, 2004, and an option to purchase 87,500 shares of our common stock vests in full either on (i) May 11, 2007, if the Company meets certain performance criteria for the fiscal year ended December 31, 2006, or (ii) May 11, 2009, if the Company fails to meet such performance criteria. In the event of termination upon a change of control, or termination without cause in the absence of a change of control, subject to his provision of transition services if requested and his execution of a release of claims, such options will vest and become exercisable for a period of one year following such termination.

Mr. Douglas

On September 30, 2002, we entered into an executive retention and severance agreement with Mr. Douglas pursuant to which he agreed to serve as Executive Vice President, General Counsel and Secretary. Additionally, we entered into a compensation arrangement with Mr. Douglas that provides for annual base compensation of \$325,000.

Under his 2004 executive bonus plan, Mr. Douglas was also eligible to receive a performance bonus of up to twice his annual base compensation for 2004; he received \$325,000.

We will reimburse Mr. Douglas for actual and reasonable business expenses. In addition, Mr. Douglas was reimbursed for reasonable expenses associated with his relocation to our headquarters as described above under

Summary Compensation Table. In connection with the expected loss on the sale of his residence, we paid \$100,000 to Mr. Douglas in the first quarter of 2003 to facilitate his move to our headquarters.

Effective October 8, 2002, we granted Mr. Douglas an option to purchase 1,200,000 shares of our common stock at an exercise price of \$0.39 per share. This option vested as to 200,000 shares on the date of grant and the remaining 1,000,000 options vests ratably on a monthly basis over 48 months beginning on October 1, 2002.

In the event of a termination without cause, subject to his provision of transition services if requested and his execution of a release of claims, Mr. Douglas will receive a lump sum payment in an amount equal to his annual base salary, payment of his continued medical coverage premiums for up to 12 months, and a payment in an amount equal to 50% of his target bonus for the year in which his termination occurs (the **Minimum Bonus Payment**). In addition, if the termination occurs after June 30 of any year, and before January 1 of the next year, and our financial performance goals for the year have been achieved, we will pay Mr. Douglas a prorated portion of his target bonus less his **Minimum Bonus Payment**. All equity awards Mr. Douglas was granted by us prior to September 30, 2002 will vest and any such options will remain exercisable for a period of 12 months following the later of his termination date or the end of any transition services period.

On May 11, 2004, we granted Mr. Douglas options to purchase 350,000 shares of our common stock at an exercise price of \$4.09 per share. An option to purchase 262,500 shares of our common stock vests ratably on a quarterly basis over four years beginning on May 11, 2004, and an option to purchase 87,500 shares of our common stock vests in full either on (i) May 11, 2007, if the Company meets certain performance criteria for the fiscal year ended December 31, 2006, or (ii) May 11, 2009, if the Company fails to meet such performance criteria. In the event of termination upon a change of control, or termination without cause in the absence of a change of control, subject to his provision of transition services if requested and his execution of a release of claims, such options will vest and become exercisable for a period of one year following such termination.

Mr. Merrill

On April 24, 2002, we entered into an executive retention and severance agreement with Mr. Merrill pursuant to which he agreed to continue to serve as executive vice president of strategy and corporate development. Additionally, we entered into a new compensation arrangement with Mr. Merrill that provides for annual base compensation of \$325,000, effective January 21, 2002. Under his 2004 executive bonus plan, Mr. Merrill was also eligible to receive a performance bonus of up to twice his annual base compensation for 2004; he received \$325,000.

Effective January 17, 2002, we granted Mr. Merrill an option to purchase 450,000 shares of our common stock at an exercise price of \$2.25 per share. This option vests ratably on a monthly basis over 48 months beginning on February 1, 2002. Additionally, effective January 24, 2002, we granted Mr. Merrill an option to purchase 700,000 shares of our common stock at an exercise price of \$1.76 per share. This option vested as to 87,500 shares on July 24, 2002 and the remainder vests ratably on a monthly basis over 42 months beginning on August 1, 2002.

In the event of a termination without cause, subject to his provision of transition services if requested and his execution of a release of claims, Mr. Merrill will receive a lump sum payment in an amount equal to his annual base salary, payment of his continued medical coverage premiums for up to 12 months, and a payment in an amount equal to 50% of his target bonus for the year in which his termination occurs (the **Minimum Bonus Payment**). In addition, if the termination occurs after June 30 of any year, and before January 1 of the next year, and our financial performance goals for the year have been achieved, we will pay Mr. Merrill a prorated portion of his target bonus less his **Minimum Bonus Payment**. All equity awards Mr. Merrill was granted by us prior to April 24, 2002 will vest and any such options will remain exercisable for a period of 12 months following the later of his termination date or the end of any transition services period.

On May 11, 2004, we granted Mr. Merrill options to purchase 350,000 shares of our common stock at an exercise price of \$4.09 per share. An option to purchase 262,500 shares of our common stock vests ratably on a quarterly basis over four years beginning on May 11, 2004, and an option to purchase 87,500 shares of our common stock vests in full either on (i) May 11, 2007, if the Company meets certain performance criteria for the fiscal year ended December 31, 2006, or (ii) May 11, 2009, if the Company fails to meet such performance criteria. In the event of termination upon a change of control, or termination without cause in the absence of a change of control,

subject to his provision of transition services if requested and his execution of a release of claims, such options will vest and become exercisable for a period of one year following such termination.

Director Compensation

Prior to 2002, directors did not generally receive cash compensation for their services as directors, but were reimbursed for their reasonable and necessary expenses in attending meetings of board of directors and committees of the board. Compensation for services was provided solely in the form of stock options. However, in 2002, we began to pay cash compensation in addition to stock options and the reimbursement of these expenses because these activities involved significant additional efforts and time commitments. We intend to continue to pay cash compensation in addition to equity compensation and expense reimbursements to directors due to the directors' increased time commitments as well as increased corporate governance responsibilities.

Non-employee directors receive an annual retainer of \$25,000 in cash, which is paid in quarterly installments. Each committee chair receives an additional annual retainer of \$5,000 in cash, except the chairman of the audit committee receives \$10,000 in cash. Each of these directors also receives \$1,500 in cash per meeting for each board meeting attended in person (and \$1,000 for each telephonic meeting attended after April 4, 2005) that requires a significant commitment of time. In addition, members of the committees of the board receive, depending on the committee, either \$2,000 or \$1,500 for each committee meeting attended (and either \$1,500 or \$1,000 for each telephonic meeting attended after April 4, 2005) that requires a significant commitment of time. In 2004, Mr. Hanauer, in his capacity as chairman of the board, received an additional annual retainer of \$70,000 in cash, which was paid in quarterly installments.

In 2004, each non-employee director (other than any director who is entitled to a seat on our board of directors on a contractual basis) was granted 10,300 restricted shares of our common stock under our 1999 Stock Incentive Plan. Mr. Hanauer, in his capacity as chairman of the board, was granted an additional 15,450 restricted shares. No options were included as part of these 2004 grants to directors. Each restricted share will vest three years after the grant date. All restricted stock will immediately vest if the director is not nominated for re-election, is nominated for re-election and is not elected or must resign due to health reasons, or upon such director's death. Upon a director's resignation or termination for other reasons, including but not limited to business conflicts with us, all of the director's unvested restricted stock will be terminated immediately.

Compensation Committee Interlocks and Insider Participation

During 2004, the management development and compensation committee was composed of three non-employee directors, Messrs. Hanauer, Doerr and Willison, none of whom have any interlocking relationships as defined by the SEC. In March 2005, Mr. Doerr resigned from the management development and compensation committee. Messrs. Hanauer and Willison are the current members of this committee.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information relating to beneficial ownership of our common stock as of April 1, 2005, by

each stockholder known by us to be the beneficial owner of 5% or more of our common stock,

each of our directors,

each of the executive officers listed in the summary compensation table, and

all of our directors and executive officers as a group.

Unless otherwise noted, the address for each stockholder listed is c/o Homestore, Inc., 30700 Russell Ranch Road, Westlake Village, California 91362.

Name of Beneficial Owner	Shares of Common Stock		Shares of Series A Preferred Stock	
	Beneficially Owned		Beneficially Owned	
	Number	Percent	Number	Percent
FMR Corp. (1)	17,923,989	12.2%		
Amerindo Investment Advisors Inc (2)	7,526,538	5.1%		
W. Michael Long (3)	4,928,308			