

USA INTERACTIVE
Form 10-Q/A
July 24, 2002

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As filed with the Securities and Exchange Commission on July 24, 2002

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A
(Amendment No. 1)**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2002

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 0-20570

USA Interactive

(Exact name of registrant as specified in its charter)

Delaware **59-2712887**
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

152 West 57th Street, New York, New York 10019
(Address of Registrant's principal executive offices)

(212) 314-7300

(Registrant's telephone number, including area code)

USA Networks, Inc.

(Former name, former address and former fiscal year, if changed since last report)

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 No

As of May 10, 2002, the following shares of the Registrant's capital stock were outstanding:

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Common Stock	350,252,365
Class B Common Stock	63,033,452
Total	413,285,817
Common Stock issuable upon exchange of outstanding exchangeable subsidiary equity	33,216,607
Total outstanding Common Stock, assuming full exchange of Class B Common Stock and exchangeable subsidiary equity	446,502,424

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of May 10, 2002 was \$8,470,236,757. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

Assuming the exchange, as of May 10, 2002, of all equity securities of subsidiaries of the Registrant exchangeable for Common Stock of the Registrant, the Registrant would have outstanding 446,502,424 shares of Common Stock with an aggregate market value of \$12,702,993,959.

EXPLANATORY NOTE

The Registrant hereby amends and restates in its entirety Item 1, Consolidated Financial Statements, as described. On May 7, 2002, USA Interactive (formerly, USA Networks, Inc.) completed its previously announced transaction with Vivendi Universal, S.A. to create a joint venture called Vivendi Universal Entertainment. In conjunction with the transaction, USA Interactive contributed the USA Entertainment Group to Vivendi Universal Entertainment. The USA Entertainment Group consists of USA Cable, including USA Network and SciFi Channel and Emerging Networks, TRIO, Newsworld International and Crime; Studios USA, which produces and distributes television programming; and USA Films, which produces and distributes films. The consolidated financial statements included in this Amendment to the Quarterly Report on Form 10-Q/A have been reclassified to present the results of operations and financial position of USA Entertainment as discontinued operations.

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2002	2001
	(In thousands, except per share data)	
Product sales	\$ 462,442	\$ 458,898
Service revenue	509,207	361,764

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	Three Months Ended March 31,	
	_____	_____
Net revenue	971,649	820,662
Operating costs and expenses:		
Cost of sales-product sales	301,742	303,657
Cost of sales-service revenue	315,806	246,425
Selling and marketing	145,846	109,619
General and administrative	78,311	72,009
Other operating costs	19,068	19,192
Amortization of non-cash distribution and marketing expense	6,964	8,017
Amortization of non-cash compensation expense	3,808	2,855
Amortization of cable distribution fees	13,000	8,756
Depreciation and amortization	59,321	103,660
	_____	_____
Total operating costs and expenses	943,866	874,190
	_____	_____
Operating profit (loss)	27,783	(53,528)
Other income (expense):		
Interest income	6,765	7,378
Interest expense	(11,433)	(11,559)
Loss in unconsolidated subsidiaries and other	(12,132)	(6,529)
	_____	_____
	(16,800)	(10,710)
	_____	_____
Earnings (loss) from continuing operations before income taxes and minority interest	10,983	(64,238)
Income tax expense	(15,950)	(4,565)
Minority interest expense	8,937	25,180
	_____	_____
Earnings (loss) from continuing operations before cumulative effect of accounting change	3,970	(43,623)
Discontinued operations, net of tax	21,930	26,240
	_____	_____
Earnings before cumulative effect of accounting change	25,900	(17,383)
Cumulative effect of accounting change, net of tax	(310,587)	(9,187)
	_____	_____
Net Loss	(284,687)	(26,570)
Preferred dividend	(1,967)	
	_____	_____
Net Loss Available to Common Shareholders	\$ (286,654)	\$ (26,570)
	_____	_____
Earnings (loss) per share from continuing operations available to common shareholders:		
Basic earnings (loss) per common share	\$.01	\$ (.12)
Diluted earnings (loss) per common share		\$ (.12)
Earnings (loss) per share before cumulative effect of accounting change:		
Basic earnings (loss) per common share	\$.06	\$ (.05)
Diluted earnings (loss) per common share	\$.05	\$ (.05)
Net Loss per Share Available to Common Shareholders:		
Basic and diluted loss per common share	\$ (.73)	\$ (.07)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2002	December 31, 2001
	<u> </u>	<u> </u>
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,709,568	\$ 978,377
Restricted cash equivalents	12,052	9,107
Marketable securities	226,214	171,464
Accounts and notes receivable, net of allowance of \$17,902 and \$16,252, respectively	274,493	276,716
Receivable from sale of USAB		589,625
Inventories, net	189,888	197,354
Deferred tax assets	38,120	39,946
Other current assets, net	128,414	84,727
Net current assets of discontinued operations	134,739	38,343
	<u> </u>	<u> </u>
Total current assets	2,713,488	2,385,659
PROPERTY, PLANT AND EQUIPMENT		
Computer and broadcast equipment	378,236	349,145
Buildings and leasehold improvements	123,677	125,491
Furniture and other equipment	95,099	91,292
Land	15,675	15,665
Projects in progress	33,396	45,754
	<u> </u>	<u> </u>
	646,083	627,347
Less accumulated depreciation and amortization	(238,370)	(228,360)
	<u> </u>	<u> </u>
	407,713	398,987
OTHER ASSETS		
Goodwill	3,587,131	3,075,831
Intangible assets, net	710,436	218,651
Cable distribution fees, net	202,727	158,880
Long-term investments	83,899	64,731
Notes and accounts receivable, net of current portion (\$86,091 and \$99,819, respectively, from related parties)	91,867	108,095
Advance to Universal	19,687	39,265
Deferred income taxes	93,192	
Deferred charges and other, net	80,218	89,751
	<u> </u>	<u> </u>
	\$ 7,990,358	\$ 6,539,850
	<u> </u>	<u> </u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2002	December 31, 2001
(In thousands, except share data)		
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 35,512	\$ 33,519
Accounts payable, trade	230,319	309,609
Accounts payable, client accounts	200,714	102,011
Cable distribution fees payable	76,553	32,795
Deferred revenue	274,832	75,256
Income tax payable	168,586	188,806
Other accrued liabilities	379,196	262,727
	1,365,712	1,004,723
Total current liabilities	1,365,712	1,004,723
Long-Term Obligations (net of current maturities)	544,501	544,372
Other Long-Term Liabilities	23,550	26,350
Deferred Income Taxes		210,184
Minority Interest	629,903	706,688
Net Long-term Liabilities of Discontinued Operations	152,447	102,032
Stockholders' Equity		
Preferred stock-\$.01 par value; authorized 100,000,000 shares; 13,120,682 and 0 shares issued and outstanding, respectively	131	
Common stock-\$.01 par value; authorized 1,600,000,000 shares; issued and outstanding, 341,974,314 and 314,704,017 shares, respectively	3,419	3,147
Class B convertible common stock-\$.01 par value; authorized, 400,000,000 shares; issued and outstanding, 63,033,452 shares	630	630
Additional paid-in capital	5,541,376	3,918,401
(Accumulated deficit)/retained earnings	(105,387)	181,267
Accumulated other comprehensive loss	(15,251)	(11,605)
Treasury stock	(145,675)	(141,341)
Note receivable from key executive for common stock issuance	(4,998)	(4,998)
	5,274,245	3,945,501
Total stockholders' equity	5,274,245	3,945,501
	\$ 7,990,358	\$ 6,539,850

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

Total	Preferred Stock	Common Stock	Class B Convertible	Addit. Paid-in	Retained Earnings/	Accum. Other	Treasury Stock	Note Receivable
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				Common Stock	Capital	Accum. Deficit	Comp. Income		From Key Executive for Common Stock Issuance
(In thousands)									
Balance at December 31, 2001	\$ 3,945,501	\$	\$ 3,147	\$ 630	\$ 3,918,401	\$ 181,267	\$ (11,605)	\$ (141,341)	\$ (4,998)
Comprehensive loss:									
Net loss for the three months ended March 31, 2002	(284,687)					(284,687)			
Decrease in unrealized gains in available for sale securities	(316)						(316)		
Foreign currency translation	(3,330)						(3,330)		
Comprehensive loss	(288,333)								
Issuance of securities in connection with the Expedia transaction	1,498,007	131	206		1,497,670				
Issuance of common stock upon exercise of stock options	96,739		63		96,676				
Income tax benefit related to stock options exercised	19,063				19,063				
Issuance of stock in connection with other transactions	9,571		5		9,566				
Dividend on preferred stock	(1,967)					(1,967)			
Purchase of treasury stock	(4,336)		(2)					(4,334)	
Balance at March 31, 2002	\$ 5,274,245	\$ 131	\$ 3,419	\$ 630	\$ 5,541,376	\$ (105,387)	\$ (15,251)	\$ (145,675)	\$ (4,998)

Accumulated other comprehensive income is comprised of unrealized (losses) gains on available for sale securities of \$(277) and \$39 at March 31, 2002 and December 31, 2001, respectively and foreign currency translation adjustments of \$(14,974) and \$(11,644) at March 31, 2002 and December 31, 2001, respectively.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

USA INTERACTIVE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	2002	2001
(In Thousands)		
Cash flows from operating activities:		
Earnings (loss) from continuing operations before cumulative effect of accounting change	\$ 3,970	\$ (43,623)

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	Three Months Ended March 31,	
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	59,321	103,660
Amortization of cable distribution fees	13,000	8,756
Amortization of deferred financing costs	343	465
Amortization of non-cash distribution and marketing	6,964	8,017
Amortization of non-cash compensation expense	3,808	2,855
Deferred income taxes	9,133	(1,077)
Equity in losses of unconsolidated affiliates	13,473	4,258
Non-cash interest income	(235)	(1,614)
Minority interest expense	(8,937)	(25,180)
Changes in current assets and liabilities:		
Accounts receivable	30,780	156
Inventories	7,619	17,775
Accounts payable	(11,782)	(23,977)
Accrued liabilities and deferred revenue	(95,039)	28,286
Increase in cable distribution fees	(12,884)	(732)
Other, net	(5,948)	(8,307)
Net Cash Provided By Operating Activities	13,586	69,718
Cash flows from investing activities:		
Acquisitions, net of cash acquired	242,306	(79,905)
Capital expenditures	(28,031)	(21,678)
Recoupment of advance to Universal	19,735	16,474
Increase in long-term investments and notes receivable	(603)	(30,619)
(Purchase) redemption of marketable securities	(55,154)	45,565
Proceeds from sale of broadcast stations	589,625	
Other, net	(10,119)	(4,589)
Net Cash Provided By (Used In) Investing Activities	757,759	(74,752)
Cash flows from financing activities:		
Borrowings	2,829	40,905
Principal payments on long-term obligations	(1,854)	(3,368)
Purchase of treasury stock	(2,895)	(646)
Payment of mandatory tax distribution to LLC partners	(153,479)	(17,369)
Proceeds from sale of subsidiary stock	33,566	913
Proceeds from issuance of common stock and LLC shares	100,339	29,495
Other, net	(243)	(6,829)
Net Cash Provided By (Used In) Financing Activities	(21,737)	43,101
Discontinued operations	(18,451)	29,837
Effect of exchange rate changes on cash and cash equivalents	34	(3,022)
Net Increase In Cash and Cash Equivalents	731,191	64,882
Cash and cash equivalents at beginning of period	978,377	244,223
Cash And Cash Equivalents at End of Period	\$ 1,709,568	\$ 309,105

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

USA INTERACTIVE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 ORGANIZATION

USA Interactive ("USA" or the "Company") (Nasdaq: USAI) is organized into two groups, the USA Interactive Group and the USA Entertainment Group. The USA Interactive Group consists of Home Shopping Network (including HSN International and HSN.com); Ticketmaster (Nasdaq: TMCS), which operates Ticketmaster, Ticketmaster.com, Citysearch and Match.com; Hotels.com (formerly Hotel Reservations Network (Nasdaq: ROOM); Electronic Commerce Solutions; Styleclick (OTC: IBUY); Precision Response Corporation; and Expedia, Inc. (as of February 4, 2002) (Nasdaq: EXPE). The USA Entertainment Group consists of USA Cable, including USA Network and Sci Fi Channel and Emerging Networks TRIO, Newsworld International and Crime; Studios USA, which produces and distributes television programming; and USA Films, which produces and distributes films.

USA Entertainment was contributed to a joint venture with Vivendi Universal, S.A. ("Vivendi") on May 7, 2002 and the results of operations and statement of position of USA Entertainment is now presented as a discontinued operation. See Note 10 for further discussion of the VUE transaction.

On February 4, 2002, USA completed its acquisition of a controlling interest in Expedia, Inc. ("Expedia") through a merger of one of its subsidiaries with and into Expedia. See Note 3 below for further discussion.

Prior to the VUE transaction, a number of USA's businesses were held by two non-wholly owned subsidiaries, Home Shopping Network, Inc. ("Holdco") and USANi LLC. USA maintained control and management of Holdco and USANi LLC, and manages the businesses held by USANi LLC, in substantially the same manner as they would be if USA held them directly through wholly owned subsidiaries. The other principal owners of these subsidiaries were Liberty Media Corporation ("Liberty") and Vivendi, through Universal Studios, Inc ("Universal") and other subsidiaries. In connection with the VUE transaction, all shares of USANi LLC held by Liberty and Vivendi were exchanged for USA shares or cancelled. USA had the contractual right to require the exchange of the Holdco shares held by Liberty for shares of USA, which exchange occurred on June 27, 2002. Following such exchange and after giving effect to the VUE transaction, Holdco and USANi LLC are wholly owned, thereby simplifying USA's corporate and capital structure.

Basis of Presentation

The interim Condensed Consolidated Financial Statements and Notes thereto of the Company are unaudited and should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto for the twelve months ended December 31, 2001.

In the opinion of the Company, all adjustments necessary for a fair presentation of such Condensed Consolidated Financial Statements have been included. Such adjustments consist of normal recurring items. Interim results are not necessarily indicative of results for a full year. The interim Condensed Consolidated Financial Statements and Notes thereto are presented as permitted by the Securities and Exchange Commission and do not contain certain information included in the Company's audited Consolidated Financial Statements and Notes thereto.

Accounting Estimates

Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with generally accepted accounting

principles. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates.

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Significant estimates underlying the accompanying consolidated financial statements include the inventory carrying adjustment, program rights and film cost amortization (Discontinued operations), sales return and other revenue allowances, allowance for doubtful accounts, recoverability of intangibles and other long-lived assets, estimates of film revenue ultimates (Discontinued operations) and various other operating allowances and accruals.

New Accounting Pronouncements

Accounting for Goodwill and Other Intangible Assets

Effective January 1, 2002, USA adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." The new rules eliminate amortization of goodwill and other intangible assets with indefinite lives and establish new measurement criterion for these assets. As previously discussed, USA recorded a pre-tax write-off before minority interest of \$499 million related to the Citysearch and Precision Response ("PRC") businesses. Although Citysearch and PRC are expected to generate positive cash flows in the future, due to cash flow discounting techniques to estimate fair value as required by the new rules, the future estimated discounted cash flows do not support current carrying values. The Citysearch write-off was \$115 million, and the PRC write-off was \$384 million. Goodwill amortization recorded in the three months ended March 31, 2001 was \$52.8 million.

Adoption of the new standard resulted in a one-time, non-cash after-tax expense of \$310.6 million. The expense is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations. See Note 7 for additional information.

Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that opinion). SFAS No. 144 established a single accounting model, based on the framework established in SFAS No. 121 for long-lived assets to be disposed of for sale. It retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with earlier applications encouraged.

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Accounting by Producers or Distributors of Films (Discontinued Operations)

The Company adopted SOP 00-2, *Accounting by Producers or Distributors of Films* ("SOP 00-2") during the three months ended March 31, 2001. SOP 00-2 established new film accounting standards, including changes in revenue recognition and accounting for advertising, development and overhead costs. Specifically, SOP 00-2 requires advertising costs for theatrical and television product to be expensed as incurred. This compares to the Company's previous policy of first capitalizing these costs and then expensing them over the related revenue streams. In addition, SOP 00-2 requires development costs for abandoned projects and certain indirect overhead costs to be charged directly to expense, instead of those costs being capitalized to film costs, which was required under the previous accounting rules. SOP 00-2 also requires all film costs to be classified in the balance sheet as non-current assets. Provisions of SOP 00-2 in other areas, such as revenue recognition, generally are consistent with the Company's existing accounting policies.

SOP 00-2 was adopted as of January 1, 2001, and the Company recorded a one-time, non-cash after-tax expense of \$9.2 million related to the entertainment assets that were transferred to Vivendi. The expense is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

Reclassifications

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the 2002 presentation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

See the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended (the "2001 Form 10-K/A") for a summary of all significant accounting policies.

NOTE 3 BUSINESS ACQUISITIONS**Expedia Transaction**

On February 4, 2002, USA completed its acquisition of a controlling interest in Expedia through a merger of one of its subsidiaries with and into Expedia. Immediately following the merger, USA owned all of the outstanding shares of Expedia Class B common stock, representing approximately 64.2% of Expedia's then outstanding shares, and 94.9% of the voting interest in Expedia. On February 20, 2002, USA acquired 936,815 shares of Expedia common stock, increasing USA's ownership to 64.6% of Expedia's then outstanding shares, with USA's voting percentage remaining at 94.9%. In the merger, USA issued to former holders of Expedia common stock who elected to receive USA securities an aggregate of 20.6 million shares of USA common stock, 13.1 million shares of \$50 face value 1.99% cumulative convertible preferred stock of USA and warrants to acquire 14.6 million shares of USA common stock at an exercise price of \$35.10. Expedia will continue to be traded on Nasdaq under the symbol "EXPE," the USA cumulative preferred stock trades on OTC under the symbol "USAIP" and the USA warrants trade on Nasdaq under the symbol "USAIW."

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Pursuant to the terms of the USA/Expedia transaction documents, Microsoft Corporation, which beneficially owned 33,722,710 shares of Expedia common stock, elected to exchange all of its Expedia common stock for USA securities in the merger. Expedia shareholders who did not receive USA securities in the transaction retained their Expedia shares and received for each Expedia share held 0.1920 of a new Expedia warrant.

The aggregate purchase price, including transaction costs, was \$1.5 billion.

The Expedia transaction has been accounted for under the purchase method of accounting by USA. The purchase price has been preliminarily allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of purchase. In order to complete its assessment, USA is in the process of obtaining an independent valuation of the assets and liabilities acquired, including the identification of intangible assets other than goodwill. Although it has not completed its assessment, USA has preliminarily identified \$567.3 million of intangible assets other than goodwill. USA will complete its assessment of intangibles acquired by the second quarter of 2002. The unallocated excess of acquisition costs over net assets acquired of \$804.7 million was allocated to goodwill. Intangible assets without indefinite lives will be amortized over a period of 3 to 10 years, and include technology, distribution agreements, customer lists and supplier relationships. Assets and liabilities of Expedia as of the acquisition date, including the preliminary application of purchase accounting by USA, consist of the following:

	(in thousands)
Current assets	\$ 320,224
Non-current assets	34,528
Goodwill and indefinite lived intangible assets	1,201,504
Intangible assets	252,400
Current liabilities	206,497
Non-current liabilities	87,072

The following unaudited pro forma condensed consolidated financial information for the three months ended March 31, 2002 and 2001, is presented to show the results of the Company, as if the Expedia Transaction and the merger of Ticketmaster and Ticketmaster Online Citysearch, which did not impact revenues or operating profit, but rather minority interest and income taxes, had occurred at the beginning of the periods presented. The pro forma results include certain adjustments, including increased amortization related to intangible assets, and are not necessarily indicative of what the results would have

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been had the transactions actually occurred on the aforementioned dates. Note that the amounts exclude USAB and USA Entertainment, which are presented as discontinued operations (see note 10).

**Three Months Ended
March 31,**

	Three Months Ended March 31,	
	2002	2001
	(in thousands, except per share data)	
Net revenues	\$ 1,007,993	\$ 877,884
Earnings (loss) before cumulative effect of accounting change	7,234	(59,835)
Earnings (loss) before cumulative effect of accounting change available to common shareholders	3,970	(59,835)
Basic and diluted loss available to common shareholders before cumulative effect of accounting change per common share		(0.15)

NOTE 4 STATEMENTS OF CASH FLOWS**Supplemental Disclosure of Non-Cash Transactions for the Three Months Ended March 31, 2002:**

For the three months ended March 31, 2002, interest accrued on the \$200.0 million advance to Universal amounted to \$0.3 million.

For the three months ended March 31, 2002, the Company incurred non-cash distribution and marketing expense of \$7.0 million.

Supplemental Disclosure of Non-Cash Transactions for the Three Months Ended March 31, 2001:

For the three months ended March 31, 2001, interest accrued on the \$200.0 million advance to Universal amounted to \$1.6 million.

For the three months ended March 31, 2001, the Company incurred non-cash distribution and marketing expense of \$8.0 million.

NOTE 5 INDUSTRY SEGMENTS

The Company operated principally in the following industry segments: Home Shopping Network (including HSN International and HSN.com); Ticketmaster (Nasdaq: TMCS), which operates Ticketmaster, Ticketmaster.com, Citysearch and Match.com; Hotels.com (Nasdaq: ROOM); Expedia (Nasdaq: EXPE); Electronic Commerce Solutions; Styleclick (OTC: IBUY); and Precision Response Corporation.

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating profit plus (1) depreciation and amortization, (2) amortization of cable distribution fees of \$13.0 million and \$8.8 million in the three months ended March 31, 2002 and 2001, respectively (3) amortization of non-cash distribution and marketing expense and (4) disengagement expenses of \$11.5 million in 2002. Adjusted EBITDA is presented here as a tool and

as a valuation methodology used by management in evaluating the business. Adjusted EBITDA does not purport to represent cash provided by operating activities. Adjusted EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Adjusted EBITDA may not be comparable to calculations of similarly titled measures presented by other companies.

The following is a reconciliation of Operating Profit to Adjusted EBITDA for the three months ended March 31, 2002 and 2001.

	Three Months Ended March 31,	
	2002	2001
	(in thousands)	
Operating profit (loss)	\$ 27,783	\$ (53,528)

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	Three Months Ended March 31,	
	_____	_____
Depreciation and amortization	59,321	103,660
Amortization of cable distribution fees	13,000	8,756
Amortization of non-cash distribution and marketing	6,964	8,017
Amortization of non cash compensation expense	3,808	2,855
Disengagement expenses	11,538	
	_____	_____
Adjusted EBITDA	\$ 122,414	\$ 69,670
	_____	_____
Revenues:		
HSN U.S.(a)	395,326	385,372
Ticketing	153,379	150,109
Hotels.com	165,712	105,286
Expedia	80,519	
Precision Response	70,089	80,692
Match.com	25,265	8,544
Citysearch and related	7,275	12,384
Electronic Commerce Solutions/Styleclick	12,084	8,572
HSN International and other(b)	64,989	69,703
Intersegment Elimination	(2,989)	
	_____	_____
Total	\$ 971,649	\$ 820,662
	_____	_____

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Operating profit (loss):		
HSN U.S.(a)(c)	21,691	23,001
Ticketing	19,344	10,585
Hotels.com	18,768	595
Expedia	12,874	
Precision Response	(3,203)	(5,637)
Match.com	5,625	(4,685)
Citysearch and related	(24,429)	(42,603)
Electronic Commerce Solutions/Styleclick	(9,306)	(19,638)
HSN International and other	(6,543)	(2,573)
Corporate & other	(11,097)	(12,573)
Intersegment elimination	4,059	
	_____	_____
Total	\$ 27,783	\$ (53,528)
	_____	_____
Adjusted EBITDA		
HSN U.S.(a)(c)	57,717	51,735
Ticketing	33,685	30,233
Hotels.com	25,794	15,822
Expedia	25,371	
Precision Response	5,732	10,017
Match.com	6,872	264
Citysearch and related	(10,740)	(11,751)
Electronic Commerce Solutions/Styleclick	(8,465)	(16,918)

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HSN International and other	(4,851)	(1,705)
Corporate & other	(8,701)	(7,937)
Total	\$ 122,414	\$ 69,760

- (a) Includes estimated revenue in 2001 generated by homes lost by HSN following the sale of USA Broadcasting to Univision of \$36.2 million. Includes coupons redeemed by customers impacted by disengagement in 2002 of \$0.9 million, which is reflected as an offset to revenue.
- (b) Includes impact of foreign exchange fluctuations, which reduced revenues by \$16.5 million and \$13.7 million in 2002 and 2001, respectively, if the results are translated from Euros to U.S. dollars at a constant exchange rate, using 1999 as the base year.
- (c) Includes \$11.5 million of costs incurred in 2002 related to the disengagement of HSN from USA Broadcasting stations. Amounts relate to \$0.9 million of coupons redeemed by customers and \$10.6 million of payments to cable operators and related marketing expenses in the disengaged markets.

NOTE 6 EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

At March 31, 2002, USA beneficially owned 46.7% of the outstanding common stock of Hot Networks AG, a German stock corporation, the subsidiaries of which operate electronic retailing operations in Europe. This investment is accounted for using the equity method. On May 3, 2002, USA stated that it would no longer fund HOT Networks, which entity USA does not control. The other shareholders have also terminated their funding of the venture. As of April 30, 2002, USA has a

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long-term receivable of \$100.5 million from HOT Networks. The Company is evaluating the recoverability of this receivable, but has not completed its evaluation at this time. Home Shopping Network and the other shareholders of HOT Networks are actively discussing alternative arrangements with respect to their relationship, which may include the acquisition of additional equity by USA. Based on these discussions, the Company may determine that the carrying value of the receivable is not recoverable. Summary financial information for Hot Networks AG is presented below.

	As of and for the Three Months Ended March 31,	
	2002	2001
	(In Thousands)	
Current assets	\$ 25,808	\$ 5,932
Non-current assets	168,993	41,344
Current liabilities	47,469	32,267
Non-current liabilities	234,815	22,871
Net sales	5,069	5,931
Gross profit	277	1,236
Net loss	(27,094)	(19,250)

Through April 30, 2002, the Company has contributed approximately \$137.5 million, including \$12.2 million in April 2002, and recorded equity losses in unconsolidated subsidiaries of \$39.9 million, including \$12.2 million in the three months ended March 31, 2002.

Note that USA consolidates the operations of HOT Germany, a separate entity that USA controls pursuant to a pooling agreement with Georg Kofler. Home Shopping Network, a subsidiary of USA, Georg Kofler and the other shareholders of HOT Germany are actively discussing alternative arrangements with respect to their relationship, which may include the acquisition of additional equity by USA. Home Shopping Network has guaranteed certain bank loans to Mr. Kofler by agreeing to purchase, at a price not to exceed \$50 million, Mr. Kofler's shares in HOT Germany that have been pledged to the banks providing the loans in the event of a default by Mr. Kofler. The Company is evaluating these

provisions at this time.

NOTE 7 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets is comprised of goodwill of \$3.6 billion, intangible assets with indefinite lives of \$315.1 million related primarily to tradenames acquired in the Expedia transaction, and other intangible assets of \$395.3 million. The other intangible assets relate primarily to purchased technology, distribution agreements, customer lists and supplier relationships, and include \$246.0 million related to the Expedia transaction. The amounts for Expedia are preliminary at this time, as the Company has not completed its purchase price allocation. The intangible assets that do not have indefinite lives are being amortized over periods ranging from 3 to 10 years. Amortization expense for the three months ended March 31, 2002 and 2001 was approximately \$21.3 million and

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\$19.6 million respectively. Amortization expense based on March 31, 2002 balances for the next five years is estimated to be as follows (in thousands):

Nine months ended December 31, 2002	\$ 80,770
Year ended December 31, 2003	103,393
Year ended December 31, 2004	89,466
Year ended December 31, 2005	53,484
Year ended December 31, 2006	50,823
Year ended December 31, 2007 and thereafter	17,393
	<u>395,329</u>
	<u>\$ 395,329</u>

Reported net earnings (loss) and basic and diluted net earnings (loss) per share adjusted to exclude amortization expense related to goodwill and other intangible assets with indefinite lives is as follows (in thousands, except per share data):

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Reported earnings (loss) from continuing operations before cumulative effect of accounting change	\$ 3,970	\$ (43,623)
Discontinued operations, net of tax	21,930	26,240
Earnings (loss) before cumulative effect of accounting change	25,900	(17,383)
Cumulative effect of accounting change (a)	(310,587)	(9,187)
Reported net loss	(284,687)	(26,570)
Preferred dividend	(1,967)	
Loss available to common shareholders	(286,654)	(26,570)
Add back goodwill amortization		43,201
Adjusted net (loss) earnings	\$ (286,654)	\$ 16,631
Earnings (loss) per share:		
Reported earnings (loss) available to common shareholders before cumulative effect of accounting change	\$ 0.06	\$ (0.05)
Cumulative effect of accounting change	(0.79)	(0.02)
Reported basic and diluted net loss per share	(0.73)	(0.07)
Add back: goodwill amortization		0.11

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Three Months Ended March 31,

Adjusted basic and diluted net (loss) earnings per share	\$ (0.73)	\$ 0.04
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(a)

Cumulative effect of accounting change in 2002 relates to the adoption of FAS 142, while the effect in 2001 relates to the adoption of SOP 00-2, Accounting by Producers or Distributors of Films.

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The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill for the three months ended March 31, 2002 (in thousands):

	Balance at January 1, 2002	FX Translation	Adoption of FAS 142	Balance at March 31, 2002
HSN-US	1,174,652			1,174,652
Ticketing operations	722,786	568		723,354
Hotels.com	362,585			362,585
Expedia				954,181
Precision Response	696,809		(384,455)	312,354
Citysearch and related	58,994		(58,994)	
Match.com	45,738			45,738
ECS				
Styleclick				
HSN-International	14,267			14,267
	\$ 3,075,831	\$ 568	\$ (443,449)	\$ 3,587,131

NOTE 8 SAVOY SUMMARIZED FINANCIAL INFORMATION (Discontinued Operation)

The Company has not prepared separate financial statements and other disclosures concerning Savoy because management has determined that such information is not material to holders of the Savoy Debentures, all of which have been assumed by the Company as a joint and several obligor. The information presented is reflected at Savoy's historical cost basis.

Summary Consolidated Statements of Operations

	Three Months Ended March 31,	
	2002	2001
	(In thousands)	
Net sales	\$ 823	\$ 2,657
Operating expenses	42	2,527
Operating income	781	130
Net income	639	1,326

Summary Consolidated Balance Sheets

March 31, 2002	December 31, 2001
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(in thousands)

Current assets	\$	10,707	\$	10,709
Non-current assets		54,655		53,563
Current liabilities		4,851		4,861
Non-current liabilities		44,791		44,530

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NOTE 9 NOTES OFFERING AND GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

On November 23, 1998, the Company and USANi LLC as co-issuers completed an offering of \$500.0 million 6³/₄% Senior Notes due 2005 (the "Old Notes"). In May 1999, the Old Notes were exchanged in full for \$500.0 million of new 6³/₄% Senior Notes due 2005 (the "Notes") that have terms that are substantially identical to the Old Notes. Interest is payable on the Notes on May 15 and November 15 of each year, commencing May 15, 1999. The Notes are jointly, severally, fully and unconditionally guaranteed by certain subsidiaries of the Company, including Home Shopping Network, Inc. ("Holdco"), a non-wholly owned, direct subsidiary of the Company, and all of the subsidiaries of USANi LLC (other than subsidiaries that are, individually and in the aggregate, inconsequential to USANi LLC on a consolidated basis) (collectively, the "Subsidiary Guarantors"). All of the Subsidiary Guarantors (other than Holdco) (the "Wholly Owned Subsidiary Guarantors") are wholly owned, directly or indirectly, by the Company or USANi LLC, as the case may be.

The following tables present condensed consolidating financial information for the three months ended March 31, 2001 and 2000 for: (1) the Company on a stand-alone basis, (2) Holdco on a stand-alone basis, (3) USANi LLC on a stand-alone basis, (4) the combined Wholly Owned Subsidiary Guarantors (including Wholly Owned Subsidiary Guarantors that are wholly owned subsidiaries of USANi LLC), (5) the combined non-guarantor subsidiaries of the Company (including the non-guarantor subsidiaries of USANi LLC (collectively, the "Non-Guarantor Subsidiaries")), and (6) the Company on a consolidated basis.

Separate financial statements for each of the Wholly Owned Subsidiary Guarantors are not presented and such Wholly Owned Subsidiary Guarantors are not filing separate reports under the Securities Exchange Act of 1934 because the Company's management has determined that the information contained in such documents would not be material to investors.

As of and for the Three Months Ended March 31, 2002

	USA	Holdco	USANi LLC	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
Current assets	\$	\$	\$ 1,096,724	\$ 285,399	\$ 1,236,564	\$ (39,938)	\$ 2,578,749
Property and equipment, net			23,991	159,587	224,135		407,713
Goodwill and other intangible assets, net	1,430,535		2,131	1,056,957	1,807,944		4,297,567
Investment in subsidiaries	3,945,321	1,068,812	5,806,100			(10,820,233)	
Other assets	174,189		65,848	(999,305)	1,360,664	(29,806)	571,590
Net current assets of discontinued operations				142,613	(34,623)	26,749	134,739
Total assets	\$ 5,550,045	\$ 1,068,812	\$ 6,994,794	\$ 645,251	\$ 4,594,684	\$ (10,863,228)	\$ 7,990,358
Current liabilities	\$ 97,596	\$	\$ 77,139	\$ 387,523	\$ 858,049	\$ (54,595)	\$ 1,365,712
Long-term debt, less current portion			498,590		45,911		544,501
Other liabilities	182,371		388,182	7,776	452,120	(1,006,899)	23,550
Minority interest	(4,167)		(414,946)	156,510	339,449	553,057	629,903
Interdivisional equity				5,640,359	2,910,569	(8,550,928)	
Stockholders' equity	5,274,245	1,068,812	6,445,829			(7,514,641)	5,274,245
Net non-current liabilities on discontinued operations				(5,546,917)	(11,414)	5,710,778	152,447

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	USA	Holdco	USANi LLC	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
Total liabilities and shareholders' equity	\$ 5,550,045	\$ 1,068,812	\$ 6,994,794	\$ 645,251	\$ 4,594,684	\$ (10,863,228)	\$ 7,990,358

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Revenue	\$	\$	\$	\$ 388,845	\$ 587,018	\$ (4,214)	\$ 971,649
Operating expenses		894	(8,245)	(377,947)	(566,472)	7,904	(943,866)
Interest expense, net	4,085		(8,569)	(273)	289	(200)	(4,668)
Miscellaneous	(1,009)	26,823	98,506	417	(10,827)	(126,042)	(12,132)
Provision for income taxes				(893)	(15,057)		(15,950)
Minority interest				(48,694)	(2,284)	59,915	8,937
Net income (loss) from continuing operations	3,970	26,823	81,692	(38,545)	(7,333)	(62,637)	3,970
Net income (loss) from discontinued operations	21,930			28,546	(6,616)	(21,930)	21,930
Net loss from cumulative effect of accounting change	(310,587)				(310,587)	310,587	(310,587)
Net earnings (loss)	\$ (284,687)	\$ 26,823	\$ 81,692	\$ (9,999)	\$ (324,536)	\$ 226,020	\$ (284,687)
Cash flows from operations	\$ 457,217	\$	\$ (605,653)	\$ (21,748)	\$ 183,770	\$	\$ 13,586
Cash flows used in investing activities	(33,841)		591,191	(11,992)	165,401	47,000	757,759
Cash flows from financing activities	(423,376)		316,103	33,044	99,492	(47,000)	(21,737)
Cash flows used by discontinued operations				(7,135)	(11,316)		(18,451)
Effect of exchange rate				14	20		34
Cash at the beginning of the period	(1,544)		773,907	3,348	202,666		978,377
Cash at the end of the period	\$ (1,544)	\$	\$ 1,075,548	\$ (4,469)	\$ 640,033	\$	\$ 1,709,568

For the Three Months Ended March 31, 2001

	USA	Holdco	USANi LLC	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
Revenue	\$	\$	\$	\$ 388,841	\$ 431,821	\$	\$ 820,662
Operating expenses	(2,519)		(9,765)	(373,350)	(488,556)		(874,190)
Interest expense, net	(6,930)		3,228	(197)	(282)		(4,181)
Miscellaneous	(34,174)	26,465	112,624	1,493	(8,021)	(104,916)	(6,529)
Provision for income taxes				2,120	(6,685)		(4,565)
Minority interest				(65,239)	19,048	71,371	25,180
Net (loss) income from continuing operations	(43,623)	26,465	106,087	(46,332)	(52,675)	(33,545)	(43,623)
Net income (loss) from discontinued operations	26,240			29,021	(2,781)	(26,240)	26,240
	(9,187)			2,438	(11,625)	9,187	(9,187)

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	USA	Holdco	USANi LLC	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
Net (loss) income from cumulative effect of accounting change							
Net earnings (loss)	\$ (26,570)	\$ 26,465	\$ 106,087	\$ (14,873)	\$ (67,081)	\$ (50,598)	\$ (26,570)
Cash flows from operations	\$ (5,031)	\$	\$ 2,081	\$ 21,036	\$ 51,632	\$	\$ 69,718
Cash flows used in investing activities	16,399		(377)	(12,986)	(77,788)		(74,752)
Cash flows from financing activities	(11,368)		(18,731)	(6,422)	79,622		43,101
Cash flows used by discontinued operations				37,955	(8,118)		29,837
Effect of exchange rate			(139)	195	(3,078)		(3,022)
Cash at the beginning of the period			51,911	(2,427)	194,739		244,223
Cash at the end of the period	\$	\$	\$ 34,745	\$ 37,351	\$ 237,009	\$	\$ 309,105

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NOTE 10 DISCONTINUED OPERATIONS

Contribution of the USA Entertainment Group to VUE

On May 7, 2002, USA completed its previously announced transaction with Vivendi to create a joint venture called Vivendi Universal Entertainment ("VUE") (the "VUE Transaction"). VUE is controlled by Vivendi and its subsidiaries, with the common interests owned 93.06% by Vivendi, 5.44% by USA and 1.5% by Mr. Diller, Chairman and CEO of USA.

In connection with the VUE Transaction, USA and its subsidiaries received the following at the closing: (i) approximately \$1.62 billion in cash, debt-financed by VUE, subject to tax-deferred treatment for a 15-year period, (ii) a \$750 million face value Class A preferred interest in VUE, with a 5% annual paid-in-kind dividend and a 20-year term, to be settled in cash at its then face value at maturity; (iii) a \$1.75 billion face value Class B preferred interest in VUE, with a 1.4% annual paid-in-kind dividend, a 3.6% annual cash dividend, callable and puttable after 20 years, to be settled by Universal at its then face value with a maximum of approximately 56.6 million USA common shares, provided that Universal may substitute cash in lieu of shares of USA common stock (but not USA Class B common stock), at its election; (iv) a 5.44% common interest in VUE, generally callable by Universal after five years and puttable by USA after eight years, which may be settled in either Vivendi stock or cash, at Universal's election, and (v) a cancellation of Universal's USANi LLC interests that were exchangeable into USA common shares including USANi LLC interests obtained from Liberty in connection with a related transaction. In connection with the transaction, USA has retired approximately 321 million shares previously owned by Vivendi, thereby reducing USA's fully diluted shares to 477 million shares.

Related to the transaction, Liberty exchanged 7,079,726 shares of USANi LLC for shares of USA common stock, and subsequently transferred to Universal 25,000,000 shares of USA common stock, its remaining 38,694,982 shares of USANi LLC, as well as the assets and liabilities of Liberty Programming France (which consist primarily of 4,921,250 shares of multiThematiques S.A., a French entity), in exchange for 37,386,436 Vivendi ordinary shares.

USA contributed to VUE USA Cable, which includes USA Network, SCI FI Channel, TRIO and Newsworld International; Studios USA, which produces and distributes television programming; USA Films, which produces and distributes films. Vivendi contributed the film, television and theme park businesses of its subsidiary, Universal Studios, Inc. In addition, USA issued to Universal ten-year warrants to acquire shares of USA common stock as follows: 24,187,094 shares at \$27.50 per share; 24,187,094 shares at \$32.50 per share; and 12,093,547 shares at \$37.50 per share. Barry Diller, USA's chairman and chief executive officer, will receive a common interest in VUE with a 1.5% profit sharing percentage, with a minimum value of \$275.0 million, in return for his agreeing to specified non-competition provisions and agreeing to serve as chairman and chief executive officer of VUE. USA and Mr. Diller have agreed that they will not compete with Vivendi's television and filmed entertainment businesses (including VUE) for a minimum of 18 months. The transaction has been accounted for as an asset sale. The after-tax gain associated with this transaction is preliminarily estimated at \$3.5 billion.

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The USA Entertainment Group is presented as a discontinued operation for all periods presented. The revenues the USA Entertainment Group were \$405.0 million and \$492.1 million in the three months ended March 31, 2002 and 2001, respectively. The net income, net of the effect of minority interest, for the USA Entertainment Group was \$21.9 million (net of tax expense of \$16.2 million) and \$26.2 million (net of tax expense of \$21.9 million) in the three months ended 2002 and 2001, respectively. During the three months ended March 31, 2001, USA Entertainment Group recorded expense of \$9.2 million related to the cumulative effect of adoption of Statement of Position 00-2 "Accounting By Producers or Distributors of Films."

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-Q/A to its Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

July 24, 2002

USA INTERACTIVE

By: /s/ WILLIAM J. SEVERANCE

Name: William J. Severance
Title: Vice President and Controller
(Chief Accounting Officer)

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[USA INTERACTIVE AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS \(Unaudited\)](#)

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