

USA INTERACTIVE  
Form 10-Q/A  
November 13, 2002

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As filed with the Securities and Exchange Commission on November 13, 2002

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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 June 30, 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**

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**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)

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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

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As of July 15, 2002, the following shares of the Registrant's capital stock were outstanding:

|                                |             |
|--------------------------------|-------------|
| Common Stock                   | 383,638,460 |
| Class B Common Stock           | 64,629,996  |
|                                | <hr/>       |
| Total outstanding Common Stock | 448,268,456 |
|                                | <hr/>       |

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of July 15, 2002 was \$7,906,098,450. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

On June 27, 2002, the Company and Liberty Media Corporation completed the exchange of Liberty's Home Shopping Network, Inc. shares, with the Company issuing an aggregate of 31,620,063 shares of Common Stock and 1,596,544 shares of Class B Common Stock.

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**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 LLLP. 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 the Quarterly Report for the three months ended June 30, 2002 present the results of operations and financial position of the USA Entertainment as discontinued operations.

The consolidated financial statements included in this Amendment to the Quarterly Report on Form 10-Q/A have been adjusted for the impact of discontinued operations on the determination of diluted weighted average shares outstanding, resulting in higher diluted earnings per share before cumulative effect of accounting change available to common shareholders and diluted net income per share available to common shareholders for the three months ended June 30, 2002 and 2001 and the six months ended June 30, 2002 than previously reported.

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**PART I FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements**

**USA INTERACTIVE AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)**

| Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|--------------------------------|-------|------------------------------|-------|
| 2002                           | 2001  | 2002                         | 2001  |
| <hr/>                          | <hr/> | <hr/>                        | <hr/> |

(In Thousands, except per share data)

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|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  |                                |            |                              |            |
| Product sales  | \$ 447,348                     | \$ 456,566 | \$ 909,114                   | \$ 914,852 |
| Service revenue  | 670,447                        | 405,287    | 1,180,626                    | 767,663    |
| Net revenue  | 1,117,795                      | 861,853    | 2,089,740                    | 1,682,515  |
| Operating costs and expenses:  |                                |            |                              |            |
| Cost of sales product sales  | 279,883                        | 306,269    | 581,226                      | 605,752    |
| Cost of sales service revenue  | 403,713                        | 268,474    | 720,149                      | 522,385    |
| Selling and marketing  | 155,525                        | 99,418     | 302,213                      | 202,973    |
| General and administrative   | 103,723                        | 78,556     | 181,257                      | 153,316    |
| Other operating costs  | 19,728                         | 20,691     | 38,796                       | 39,883     |
| Amortization of non-cash distribution and marketing expense  | 10,105                         | 6,631      | 17,069                       | 14,648     |
| Amortization of non-cash compensation expense  | 3,393                          | 1,308      | 7,201                        | 4,163      |
| Amortization of cable distribution fees  | 13,064                         | 10,642     | 26,064                       | 19,398     |
| Depreciation and amortization  | 71,764                         | 107,003    | 131,089                      | 210,662    |
| Restructuring charges  | 40,214                         | 10,552     | 40,214                       | 10,552     |
| Goodwill impairment  | 22,247                         |            | 22,247                       |            |
| Total operating costs and expenses   | 1,123,359                      | 909,542    | 2,067,525                    | 1,783,732  |
| Operating (loss) profit  | (5,564)                        | (47,689)   | 22,215                       | (101,217)  |
| Other income (expense):  |                                |            |                              |            |
| Interest income  | 28,388                         | 6,432      | 35,153                       | 13,810     |
| Interest expense   | (12,049)                       | (12,039)   | (23,482)                     | (23,598)   |
| Loss in unconsolidated subsidiaries and other  | (101,765)                      | (5,941)    | (113,893)                    | (12,470)   |
| Total other expense, net   | (85,426)                       | (11,548)   | (102,222)                    | (22,258)   |
| <b>Loss from continuing operations before income taxes and minority interest</b>   | (90,990)                       | (59,237)   | (80,007)                     | (123,475)  |
| Income tax expense   | (10,608)                       | 124        | (26,558)                     | (4,441)    |
| Minority interest expense  | (9,746)                        | 25,253     | (809)                        | 50,433     |
| <b>Loss from continuing operations before cumulative effect of accounting change</b>   | (111,344)                      | (33,860)   | (107,374)                    | (77,483)   |
| Gain on contribution of USA Entertainment to VUE   | 2,378,311                      |            | 2,378,311                    |            |
| Gain on disposal of Broadcasting Stations  |                                | 49,829     |                              | 49,829     |
| Discontinued operations, net of tax  | 6,873                          | 23,582     | 28,803                       | 49,822     |
| <b>Earnings before cumulative effect of accounting change</b>  | 2,273,840                      | 39,551     | 2,299,740                    | 22,168     |
| Cumulative effect of accounting change, net of tax   |                                |            | (461,389)                    | (9,187)    |
| <b>Net income</b>  | \$ 2,273,840                   | \$ 39,551  | \$ 1,838,351                 | \$ 12,981  |
| Preferred dividend   | (3,264)                        |            | (5,231)                      |            |
| <b>Net income available to common shareholders</b>   | \$ 2,270,576                   | \$ 39,551  | \$ 1,833,120                 | \$ 12,981  |
| <b>Loss per share from continuing operations before cumulative effect of accounting change available to common shareholders:</b> |                                |            |                              |            |
| Basic and diluted loss per common share  | \$ (0.28)                      | \$ (0.09)  | \$ (0.28)                    | \$ (0.21)  |
| <b>Earnings per share before cumulative effect of accounting change available to common shareholders:</b>                        |                                |            |                              |            |
| Basic earnings per common share  | \$ 5.51                        | \$ 0.11    | \$ 5.70                      | \$ 0.06    |
| Diluted earnings per common share  | \$ 5.51                        | \$ 0.11    | \$ 5.70                      | \$ 0.06    |
| <b>Net Income per Share Available to Common Shareholders:</b>  |                                |            |                              |            |
| Basic earnings per common share  | \$ 5.51                        | \$ 0.11    | \$ 4.55                      | \$ 0.03    |

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|                                   | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|-----------------------------------|--------------------------------|------|------------------------------|------|
| Diluted earnings per common share | \$                             | 5.51 | \$                           | 0.11 |
|                                   |                                |      | \$                           | 4.55 |
|                                   |                                |      |                              | 0.03 |

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

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**USA INTERACTIVE AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

|   | June 30,<br>2002 | December 31,<br>2001 |
|---|------------------|----------------------|
| (In Thousands,<br>except share data)  |                  |                      |
| <b>ASSETS</b>   |                  |                      |
| <b>CURRENT ASSETS</b>   |                  |                      |
| Cash and cash equivalents   | \$ 3,219,634     | \$ 978,377           |
| Restricted cash equivalents   | 12,086           | 9,107                |
| Marketable securities   | 420,361          | 171,464              |
| Accounts and notes receivable, net of allowance of \$21,074 and \$16,252, respectively                            | 291,789          | 276,716              |
| Receivable from sale of USAB  |                  | 589,625              |
| Inventories, net  | 195,345          | 197,354              |
| Deferred tax assets   | 77,616           | 39,946               |
| Other current assets, net   | 127,237          | 84,727               |
| Net current assets of discontinued operations   |                  | 38,343               |
|   |                  |                      |
| Total current assets  | 4,344,068        | 2,385,659            |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                  |                      |
| Computer and broadcast equipment  | 482,152          | 349,145              |
| Buildings and leasehold improvements  | 131,092          | 125,491              |
| Furniture and other equipment   | 117,061          | 91,292               |
| Land  | 15,741           | 15,665               |
| Projects in progress  | 19,080           | 45,754               |
|   |                  |                      |
|   | 765,126          | 627,347              |
| Less accumulated depreciation and amortization  | (340,825)        | (228,360)            |
|   |                  |                      |
| Total property, plant and equipment   | 424,301          | 398,987              |
| <b>OTHER ASSETS</b>   |                  |                      |
| Goodwill  | 5,501,980        | 3,070,129            |
| Intangible assets, net  | 714,973          | 230,843              |
| Cable distribution fees, net  | 193,223          | 158,880              |
| Long-term investments   | 1,596,596        | 64,731               |
| Preferred interest exchangeable for common stock  | 1,428,530        |                      |
| Note receivables and advances, net of current portion (\$42,422 and \$99,819, respectively, from related parties) | 48,342           | 108,095              |
| Advance to Universal  |                  | 39,265               |
| Deferred charges and other, net   | 157,093          | 83,261               |
|   |                  |                      |
| Total other assets  | 9,640,737        | 3,755,204            |

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|  | June 30,<br>2002 | December 31,<br>2001 |
|--|------------------|----------------------|
| Total assets   | \$ 14,409,106    | \$ 6,539,850         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                      |
| <b>CURRENT LIABILITIES</b>   |                  |                      |
| Current maturities of long-term obligations  | \$ 41,225        | \$ 33,519            |
| Accounts payable, trade  | 357,720          | 309,609              |
| Accounts payable, client accounts  | 160,183          | 102,011              |
| Cable distribution fees payable  | 66,152           | 32,795               |
| Deferred revenue   | 323,395          | 75,256               |
| Income tax payable   | 205,235          | 188,806              |
| Other accrued liabilities  | 454,246          | 262,727              |
| Total current liabilities  | 1,608,156        | 1,004,723            |
| Long-Term Obligations, net of current maturities   | 507,322          | 544,372              |
| Other Long-Term Liabilities  | 22,573           | 26,350               |
| Deferred Income Taxes  | 2,209,925        | 210,184              |
| Minority Interest  | 824,111          | 706,688              |
| Net Long-term Liabilities of Discontinued Operations   |                  | 102,032              |
| Common Stock Exchangeable For Preferred Interest   | 1,428,530        |                      |
| <b>STOCKHOLDERS' EQUITY</b>  |                  |                      |
| Preferred stock - \$.01 par value; authorized 100,000,000 shares; issued and outstanding 13,120,533 and 0 shares, respectively                           | 131              |                      |
| Common stock - \$.01 par value; authorized 1,600,000,000 shares; issued and outstanding, 383,627,602 and 314,704,017 shares, respectively                | 3,837            | 3,147                |
| Class B convertible common stock - \$.01 par value; authorized 400,000,000 shares; issued and outstanding 64,629,996 and 63,033,452 shares, respectively | 646              | 630                  |
| Additional paid-in capital   | 5,931,069        | 3,918,401            |
| Retained earnings  | 2,014,387        | 181,267              |
| Accumulated other comprehensive income   | 10,031           | (11,605)             |
| Treasury stock   | (146,614)        | (141,341)            |
| Note receivable from key executive for common stock issuance   | (4,998)          | (4,998)              |
| Total stockholders' equity   | 7,808,489        | 3,945,501            |
| Total liabilities and stockholders' equity   | \$ 14,409,106    | \$ 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<br>Stock | Common<br>Stock | Class B<br>Convertible<br>Common<br>Stock | Addit.<br>Paid-in<br>Capital | Retained<br>Earnings | Accum.<br>Other<br>Comp.<br>Income | Treasury<br>Stock | Note<br>Receivable<br>From Key<br>Executive<br>for<br>Common<br>Stock<br>Issuance |
|-------|--------------------|-----------------|---|------------------------------|----------------------|------------------------------------|-------------------|---|
|       |                    |                 |   |                              |                      |                                    |                   |   |

(In Thousands)

|   |                     |               |                 |               |                     |                     |                  |                     |
|---|---------------------|---------------|-----------------|---------------|---------------------|---------------------|------------------|---------------------|
| <b>Balance at December 31, 2001</b>                               | \$ 3,945,501        | \$ 3,147      | 630             | \$ 3,918,401  | \$ 181,267          | \$ (11,605)         | \$ (141,341)     | \$ (4,998)          |
| Comprehensive loss:   |                     |               |                 |               |                     |                     |                  |                     |
| Net income for the six months ended June 30, 2002                 | 1,838,351           |               |                 | 1,838,351     |                     |                     |                  |                     |
| Increase in unrealized gains in available for sale securities     | (2,365)             |               |                 |               |                     | (2,365)             |                  |                     |
| Foreign currency translation                                      | 24,001              |               |                 |               |                     | 24,001              |                  |                     |
| <b>Comprehensive income</b>                                       | <b>1,859,987</b>    |               |                 |               |                     |                     |                  |                     |
| Issuance of securities in connection with the Expedia transaction | 1,497,894           | 131           | 206             | 1,497,557     |                     |                     |                  |                     |
| Issuance of common stock upon exercise of stock options           | 119,691             |               | 77              | 119,614       |                     |                     |                  |                     |
| Income tax benefit related to stock options exercised             | 25,095              |               |                 | 25,095        |                     |                     |                  |                     |
| Issuance of stock in connection with other transactions           | 59,139              |               | 22              | 59,117        |                     |                     |                  |                     |
| Issuance of stock for LLC Exchange                                | 178,650             |               | 71              | 178,579       |                     |                     |                  |                     |
| Issuance of stock for Holdco Exchange                             | 750,695             |               | 316             | 16            | 750,363             |                     |                  |                     |
| Securities issued in VUE transaction                              | 810,873             |               |                 | 810,873       |                     |                     |                  |                     |
| Common stock exchangeable for preferred interest                  | (1,428,530)         |               |                 | (1,428,530)   |                     |                     |                  |                     |
| Dividend on preferred stock                                       | (5,231)             |               |                 |               |                     | (5,231)             |                  |                     |
| Purchase of treasury stock  | (5,275)             |               | (2)             |               |                     |                     | (5,273)          |                     |
| <b>Balance at June 30, 2002</b>                                   | <b>\$ 7,808,489</b> | <b>\$ 131</b> | <b>\$ 3,837</b> | <b>\$ 646</b> | <b>\$ 5,931,069</b> | <b>\$ 2,014,387</b> | <b>\$ 10,031</b> | <b>\$ (146,614)</b> |

Accumulated other comprehensive income is comprised of unrealized (losses) gains on available for sale securities of \$(2,326) and \$39 at June 30, 2002 and December 31, 2001, respectively, and foreign currency translation adjustments of \$12,357 and \$(11,644) at June 30, 2002 and December 31, 2001, respectively.

Comprehensive income for the three months ended June 30, 2002 was \$2,148,320.

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

**USA INTERACTIVE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

Six Months Ended  
June 30,

| 2002 | 2001 |
|------|------|
|      |      |

(In Thousands)

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|  | Six Months Ended<br>June 30, |                |
|--|------------------------------|----------------|
|  | 2019                         | 2018           |
| <b>Cash flows from operating activities:</b>   |                              |                |
| Loss from continuing operations before cumulative effect of accounting change          | \$ (107,374)                 | \$ (77,483)    |
| <b>Adjustments to reconcile net loss to net cash provided by operating activities:</b> |                              |                |
| Amortization of non-cash distribution and marketing                                    | 17,069                       | 14,648         |
| Amortization of non-cash compensation expense  | 7,201                        | 4,163          |
| Amortization of cable distribution fees  | 26,064                       | 19,398         |
| Amortization of deferred financing costs   | 343                          | 807            |
| Depreciation and amortization  | 131,089                      | 210,662        |
| Goodwill impairment  | 22,247                       |                |
| Deferred income taxes  | 18,099                       | 9,453          |
| Equity in losses of unconsolidated affiliates  | 114,853                      | 9,068          |
| Non-cash interest income   | (5,732)                      | (3,021)        |
| Non-cash interest expense related to bond redemption                                   | 1,403                        |                |
| Minority interest expense  | 809                          | (50,433)       |
| <b>Changes in current assets and liabilities:</b>                                      |                              |                |
| Accounts receivable  | 50,902                       | 16,585         |
| Inventories  | 4,252                        | 17,349         |
| Accounts payable   | 30,401                       | (14,032)       |
| Accrued liabilities and deferred revenue   | (29,092)                     | (1,845)        |
| Increase in cable distribution fees  | (31,727)                     | (16,933)       |
| Other, net   | 10,921                       | 9,648          |
| <b>Net Cash Provided By Operating Activities</b>                                       | <b>261,728</b>               | <b>148,034</b> |
| <b>Cash flows from investing activities:</b>   |                              |                |
| Acquisitions and deal costs, net of cash acquired                                      | 94,325                       | (158,430)      |
| Capital expenditures   | (75,823)                     | (49,207)       |
| Recoupment of advance to Universal   | 39,422                       | 53,156         |
| Increase (decrease) in long-term investments and notes receivable                      | 26,521                       | (49,223)       |
| (Purchase) redemption of marketable securities   | (293,008)                    | 24,927         |
| Proceeds from VUE transaction  | 1,618,710                    |                |
| Proceeds from sale of broadcast stations   | 589,625                      | 294,069        |
| Other, net   | (18,844)                     | (12,021)       |
| <b>Net Cash Provided By Investing Activities</b>                                       | <b>1,980,928</b>             | <b>103,271</b> |
| <b>Cash flows from financing activities:</b>   |                              |                |
| Borrowings   | 15,639                       | 16,368         |
| Principal payments on long-term obligations  | (51,555)                     | (8,572)        |
| Purchase of treasury stock   | (5,275)                      | (898)          |
| Payment of mandatory tax distribution to LLC partners                                  | (154,083)                    | (17,369)       |
| Proceeds from sale of subsidiary stock   | 51,946                       | 5,395          |
| Proceeds from issuance of common stock and LLC shares                                  | 125,685                      | 59,533         |
| Dividend   | (3,658)                      |                |
| Other, net   | 16                           | (11,289)       |
| <b>Net Cash (Used In) Provided By Financing Activities</b>                             | <b>(21,285)</b>              | <b>43,168</b>  |
| <b>Net Cash Provided By Discontinued Operations</b>                                    | <b>12,006</b>                | <b>96,335</b>  |
| Effect of exchange rate changes on cash and cash equivalents                           | 7,880                        | (2,715)        |
| <b>Net Increase In Cash and Cash Equivalents</b>                                       | <b>2,241,257</b>             | <b>388,093</b> |

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|   | Six Months Ended<br>June 30, |                   |
|---|------------------------------|-------------------|
|   | 978,377                      | 244,223           |
| Cash and cash equivalents at beginning of period  | 978,377                      | 244,223           |
| <b>Cash And Cash Equivalents at End of Period</b> | <b>\$ 3,219,634</b>          | <b>\$ 632,316</b> |

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

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**USA INTERACTIVE AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 ORGANIZATION**

USA Interactive ("USA" or the "Company") (Nasdaq: USAI) 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); Expedia, Inc. (Nasdaq: EXPE); TV Travel Shop, which is based in the UK selling packaged vacations primarily over the television ("TVTS"); Precision Response Corporation; and Electronic Commerce Solutions and Styleclick (OTCBB: IBUYA). Through May 7, 2002, USA also included the USA Entertainment Group, which consists of USA Cable, including USA Network and Sci Fi Channel and Emerging Networks TRIO and Newsworld International; 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") called Vivendi Universal Entertainment LLLP ("VUE") (the "VUE Transaction") on May 7, 2002 and the results of operations and statement of position of USA Entertainment are presented as discontinued operations for all periods presented. See Note 9 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.

In connection with the VUE Transaction, all shares of USANi LLC held by Liberty Media Corporation ("Liberty") and Vivendi were exchanged for 7,079,726 USA shares, with the remaining approximately 320.9 million USANi LLC shares cancelled.

On June 27, 2002, the Company and Liberty completed the exchange of Liberty's Home Shopping Network ("Holdco") shares, with the Company issuing an aggregate of 31,620,063 shares of Common Stock and 1,596,544 shares of Class B Common Stock. Therefore, at this time USA owns 100% of USANi LLC and Holdco. Previously, USA maintained control and management of Holdco and USANi LLC, and managed the businesses held by USANi LLC.

**Basis of Presentation**

The interim 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 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 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.

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. Goodwill amortization recorded in continuing operations in the three and six months ended June 30, 2001 was \$53.7 million and \$106.5 million, respectively. 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.

Adoption of the new standard resulted in a one-time, non-cash expense of \$461.4 million. The expense is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations as of January 1, 2002. See Note 7 for additional information regarding goodwill. In the quarter ended March 31, 2002, the Company had estimated that it would receive a tax benefit of \$150.8 million relating to the PRC write-down based on a preliminary evaluation of its tax basis in the PRC assets. The Company is finalizing its estimate of its tax basis in PRC, and during the quarter ended June 30, 2002, the Company revised PRC's estimated tax basis and reversed the tax benefit related to the PRC write-down. This change in estimate has been recorded as of January 1, 2002, the date the standard was adopted.

In addition, in the second quarter of 2002, USA recorded a further write-down of \$22.2 million related to PRC. The write-down resulted from contingent purchase price recorded in the second quarter.

### ***Impairment or Disposal of Long-Lived Assets***

The Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets during the three months ended March 31, 2002. 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.

### ***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

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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 contributed to VUE. The expense is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

### ***Rescission of FASB Statements No. 4, Reporting Gains and Losses from Extinguishment of Debt***

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. Under SFAS No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item. The rescission of SFAS No. 4 stipulates that gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB Opinion 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.

During the second quarter of 2002, the Company adopted SFAS No. 145. On May 31, 2002, the Company fully redeemed the unsecured \$37,782,000 aggregate principal amount of 7% Convertible Subordinated Debentures due July 1, 2003 (the "Savoy Debentures"). In connection with this redemption, the Company recorded a loss of \$2.0 million which was not classified as extraordinary.

### **Reclassifications**

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the 2002 presentation. The statements of operations, balance sheets and statements of cash flows of USA Entertainment have been classified as discontinued operations for all periods presented. See Note 10 for further discussion of discontinued operations.

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## **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, for a summary of all significant accounting policies. The following discussion relates to significant matters relating to accounting policies since the Annual Report on Form 10-K was filed.

### **Revenue Presentation for Merchant Hotel Business**

As reported in the Company's press release dated July 24, 2002, the Company has chosen to discuss the revenue presentation of Hotels.com and Expedia with the SEC, as Hotels.com accounts for merchant hotel revenue on a gross basis and Expedia on a net basis. The presentations are consistent with the respective management team's interpretation of the accounting rules, based on their respective facts and circumstances, and each company's conclusions were reached in close consultation with their external auditors. USA is always striving to report its results in the most transparent and meaningful manner. The Company hopes to work with the SEC with the goal of reaching a conclusion during the third quarter. The Company believes the accounting models used by Expedia and Hotels.com continue to be appropriate based on their facts and circumstances. However, any change to the presentation of Expedia or Hotels.com will be limited to the presentation of revenue, cost of sales and operating margins, and will have no impact on the timing of revenue recognition (both defer revenue until the conclusion of the customer stay), gross profit, operating income, net income, earnings per share or cash flows.

### **Stock-Based Compensation**

The Company announced its intention to account for stock-based compensation issued to employees in accordance with FASB Statement No. 123, "Accounting for Stock Based Compensation" ("FAS 123"). The Company will adopt FAS 123 as of January 1, 2003, in accordance with the requirements for the timing of adoption in the standard. If the Company had adopted FAS 123 as of January 1, 1994, the date the standard went into effect, net income would have been reduced by \$80.3 million for the year ended December 31, 2001. However, the Company anticipates that it may use restricted stock that will vest in future periods. For restricted stock issued, the accounting charge will be measured at the grant date and amortized ratably as non-cash compensation over the vesting term. At this time it is not possible to predict the effect of this contemplated plan on net income.

**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 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 the 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 trades on Nasdaq under the symbol "EXPE," the USA

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cumulative preferred stock trades on OTC under the symbol "USAIP" and the USA warrants trade on Nasdaq under the symbol "USAIW."

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. USA obtained an independent valuation of the assets and liabilities acquired, including the identification of intangible assets other than goodwill, which identified \$545.0 million of intangible assets other than goodwill. The unallocated excess of acquisition costs over net assets acquired of \$908.9 million was allocated to goodwill. Intangible assets without indefinite lives will be amortized over a period of 2 to 5 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:

|   | <u>(In Thousands)</u> |
|---|-----------------------|
| Current assets                                  | \$ 320,224            |
| Non-current assets                              | 34,528                |
| Goodwill and indefinite lived intangible assets | 1,223,904             |
| Intangible assets                               | 230,000               |
| Current liabilities                             | 206,497               |
| Non-current liabilities                         | 87,072                |

The following unaudited pro forma condensed consolidated financial information for the three and six months ended June 30, 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 was completed on January 31, 2001 and which did not impact revenues or operating profit, but rather minority interest and income taxes, plus the 7.1 million shares issued in the VUE Transaction 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 been had the transactions actually occurred on the aforementioned dates. Note that the amounts exclude USA Broadcasting ("USAB") and USA Entertainment, which are presented as discontinued operations (see Note 10).

|             | <u>Three Months Ended</u><br><u>June 30,</u> |             | <u>Six Months Ended</u><br><u>June 30,</u> |              |
|-------------|--|-------------|--|--------------|
|             | <u>2002</u>                                  | <u>2001</u> | <u>2002</u>                                | <u>2001</u>  |
|             | <u>(In Thousands, except per share data)</u> |             |  |              |
| Net revenue | \$ 1,117,795                                 | \$ 940,327  | \$ 2,124,931                               | \$ 1,818,211 |

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|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
| Loss from continuing operations before cumulative effect of accounting change         | (105,091)                      | (37,614) | (97,857)                     | (91,813) |
| Basic and diluted loss before cumulative effect of accounting change per common share | (0.25)                         | (0.09)   | (0.24)                       | (0.23)   |
|   | 12                             |          |                              |          |

### NOTE 4 STATEMENTS OF CASH FLOWS

#### Supplemental Disclosure of Non-Cash Transactions for the Six Months Ended June 30, 2002:

In May 2002, USA acquired TVTS for a combination of cash and common stock. USA issued 1.6 million shares valued at approximately \$48.1 million.

In April 2002, Ticketmaster acquired Soulmates Technology Pty. Ltd ("Soulmates"), a global online personals company. Ticketmaster issued 0.8 million shares valued at approximately \$23.6 million.

For the six months ended June 30, 2002, interest accrued on the \$200.0 million advance to Universal amounted to \$0.3 million.

For the six months ended June 30, 2002, the Company incurred non-cash distribution and marketing expense of \$17.1 million and non-cash compensation expense of \$7.2 million.

On May 31, 2002, the Company redeemed in full the Savoy Debentures. The Company recorded a loss of \$2.0 million, of which \$1.4 million was related to the write-off of deferred finance costs.

#### Supplemental Disclosure of Non-Cash Transactions for the Six Months Ended June 30, 2001:

For the six months ended June 30, 2001, interest accrued on the \$200.0 million advance to Universal amounted to \$2.7 million.

For the six months ended June 30, 2001, the Company incurred non-cash distribution and marketing expense of \$14.6 million and non-cash compensation expense of \$4.2 million.

### NOTE 5 INDUSTRY SEGMENTS

The Company operated principally in the following industry segments: Home Shopping Network US (including HSN.com) ("HSN-US"); Ticketing, (including Ticketmaster and Ticketmaster.com); Hotels.com (Nasdaq: ROOM); Expedia (Nasdaq: EXPE); PRC; Match.com; Citysearch; USA Electronic Commerce Solutions LLC/Styleclick (OTCBB: IBUYA); and International TV shopping and other (which includes HSN International and TVTS, which was acquired in May 2002).

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating profit plus (1) depreciation and amortization including goodwill impairment, (2) amortization of cable distribution fees (3) amortization of non-cash distribution and marketing expense and non-cash compensation expense and (4) disengagement expenses. Adjusted EBITDA is presented here as a management tool and as a valuation methodology. 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 (Loss) Profit to Adjusted EBITDA for the three and six months ended June 30, 2002 and 2001:

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|   | Three Months Ended<br>June 30, |                    | Six Months Ended<br>June 30, |                     |
|---|--------------------------------|--------------------|------------------------------|---------------------|
|   | 2002                           | 2001               | 2002                         | 2001                |
| (In Thousands)                                      |                                |                    |                              |                     |
| Operating (loss) profit                             | \$ (5,564)                     | \$ (47,689)        | \$ 22,215                    | \$ (101,217)        |
| Depreciation and amortization                       | 71,764                         | 107,003            | 131,089                      | 210,662             |
| Goodwill impairment                                 | 22,247                         |                    | 22,247                       |                     |
| Amortization of cable distribution fees             | 13,064                         | 10,642             | 26,064                       | 19,398              |
| Amortization of non-cash distribution and marketing | 10,105                         | 6,631              | 17,069                       | 14,648              |
| Amortization of non cash compensation expense       | 3,393                          | 1,308              | 7,201                        | 4,163               |
| Disengagement expenses                              | 6,228                          |                    | 17,766                       |                     |
| Restructuring charges not impacting EBITDA(g)       | 5,497                          | 5,779              | 5,497                        | 5,779               |
| <b>Adjusted EBITDA</b>                              | <b>\$ 126,734</b>              | <b>\$ 83,674</b>   | <b>\$ 249,148</b>            | <b>\$ 153,433</b>   |
| <b>Revenue:</b>                                     |                                |                    |                              |                     |
| HSN US(a)   | \$ 375,200                     | \$ 381,822         | \$ 770,526                   | \$ 767,194          |
| Ticketing   | 175,406                        | 163,898            | 328,785                      | 314,006             |
| Match.com   | 29,523                         | 10,666             | 54,788                       | 19,209              |
| Hotels.com  | 229,715                        | 138,302            | 395,428                      | 243,588             |
| Expedia   | 142,727                        |                    | 223,246                      |                     |
| PRC   | 72,122                         | 75,623             | 142,211                      | 156,315             |
| Citysearch and related                              | 7,587                          | 12,389             | 14,862                       | 24,773              |
| International TV Shopping & other(b)                | 77,730                         | 73,904             | 142,719                      | 143,607             |
| USA Electronic Commerce Solutions LLC/Styleclick    | 10,392                         | 7,831              | 22,771                       | 16,405              |
| Intersegment elimination                            | (2,607)                        | (2,582)            | (5,596)                      | (2,582)             |
| <b>Total</b>  | <b>\$ 1,117,795</b>            | <b>\$ 861,853</b>  | <b>\$ 2,089,740</b>          | <b>\$ 1,682,515</b> |
| <b>Operating (loss) profit:</b>                     |                                |                    |                              |                     |
| HSN US(a)(c)  | \$ 30,099                      | \$ 24,043          | \$ 51,825                    | \$ 47,857           |
| Ticketing   | 34,174                         | 15,505             | 58,115                       | 26,179              |
| Match.com   | 6,714                          | (3,400)            | 9,635                        | (8,084)             |
| Hotels.com  | 27,522                         | 4,083              | 46,291                       | 4,678               |
| Expedia   | 18,746                         |                    | 31,620                       |                     |
| PRC(d)  | (22,913)                       | (5,822)            | (26,116)                     | (11,459)            |
| Corporate & other                                   | (6,274)                        | (11,456)           | (16,977)                     | (24,032)            |
| Citysearch and related                              | (23,480)                       | (42,601)           | (49,998)                     | (85,291)            |
| International TV Shopping & other(b)(f)             | (13,017)                       | (5,330)            | (19,797)                     | (8,716)             |
| USA Electronic Commerce Solutions LLC/Styleclick(e) | (16,921)                       | (16,108)           | (26,228)                     | (35,746)            |
| Intersegment elimination                            |                                | 3,949              | 4,059                        | 3,949               |
| Restructuring charges                               | (40,214)                       | (10,552)           | (40,214)                     | (10,552)            |
| <b>Total</b>  | <b>\$ (5,564)</b>              | <b>\$ (47,689)</b> | <b>\$ 22,215</b>             | <b>\$ (101,217)</b> |

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**Adjusted EBITDA:**

|   |    |          |    |          |    |          |    |          |
|---|----|----------|----|----------|----|----------|----|----------|
| HSN US(a)   | \$ | 62,619   | \$ | 55,207   | \$ | 120,336  | \$ | 106,942  |
| Ticketing   |    | 43,679   |    | 35,521   |    | 77,365   |    | 65,754   |
| Match.com   |    | 9,700    |    | 2,843    |    | 16,572   |    | 3,107    |
| Hotels.com  |    | 32,855   |    | 20,994   |    | 58,649   |    | 36,816   |
| Expedia   |    | 43,284   |    |          |    | 68,655   |    |          |
| PRC(d)  |    | 8,099    |    | 10,183   |    | 13,831   |    | 20,200   |
| Corporate & other                                   |    | (9,868)  |    | (8,174)  |    | (18,371) |    | (16,112) |
| Citysearch and related                              |    | (8,608)  |    | (11,050) |    | (19,349) |    | (22,801) |
| International TV Shopping & other(b)(f)             |    | (9,314)  |    | (2,622)  |    | (14,363) |    | (4,327)  |
| USA Electronic Commerce Solutions LLC/Styleclick(e) |    | (10,995) |    | (14,455) |    | (19,460) |    | (31,373) |
| Restructuring charges                               |    | (34,717) |    | (4,773)  |    | (34,717) |    | (4,773)  |
|   |    |          |    |          |    |          |    |          |
| Total   | \$ | 126,734  | \$ | 83,674   | \$ | 249,148  | \$ | 153,433  |

- (a) Includes estimated revenue in the three and six months ended June 30, 2001 generated by homes lost by HSN following the sale of USAB to Univision of \$25.5 million and \$61.6 million, respectively. Includes coupons redeemed by customers impacted by disengagement in the three and six months ended June 30, 2002 of \$0.9 million and \$1.8 million, respectively, which is reflected as an offset to revenue.
- (b) Includes impact of foreign exchange fluctuations, which reduced revenues by \$10.1 million and \$13.8 million in the three months ended June 30, 2002 and 2001, respectively, and \$26.7 million and \$27.5 million in the six months ended June 30, 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 costs incurred in the three and six months ended June 30, 2002 of \$6.2 million and \$17.8 million, respectively, related to the disengagement of HSN from USAB stations. Amounts relate to \$0.9 million and \$1.8 million, respectively, of coupons redeemed by customers and \$5.3 million and \$16.0 million, respectively, of payments to cable operators and related marketing expenses in the disengaged markets.
- (d) Results for the three and six months ended June 30, 2002 exclude restructuring charges of \$9.3 million of which \$5.8 million impacts Adjusted EBITDA. See Note 8 for further information.
- (e) Results for the three and six months ended June 30, 2002 exclude restructuring charges of \$16.2 million of which \$15.3 million impacts Adjusted EBITDA. Results for the three and six months ended June 30, 2001 exclude restructuring charges of \$10.6 million of which \$4.8 million impacts Adjusted EBITDA. See Note 8, for further information.
- (f) Results for the three and six months ended June 30, 2002 exclude restructuring charges of \$14.8 million of which \$13.6 million impacts Adjusted EBITDA. See Note 8 for further information.
- (g) Restructuring charges not impacting EBITDA of \$5.5 million relate to the write-off of fixed assets and leasehold improvements.

**NOTE 6 EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES**

At June 30, 2002, USA beneficially owned 46.7% of the outstanding common stock of HOT Networks AG ("HOT Networks"), a German stock corporation, the subsidiaries of which operate electronic retailing operations in Europe. This investment was accounted for using the equity method.

During the second quarter of 2002, HSN entered into various transactions with its European partners, Georg Kofler and Thomas Kirch, to increase HSN's ownership in its European operations. The transactions were largely completed at the beginning of the third quarter, and the total purchase price was approximately \$100 million. As a result of the transactions, HSN now owns approximately 90% of HSE-Germany, with Quelle owning the remainder, and 100% of HOT Networks. HOT Networks' principal assets, in turn, are its direct and indirect interests in EUVÍA and HSE-Italy (See "Funding Obligations of HOT Networks for EUVÍA" below for further discussion of EUVÍA's businesses and related funding obligations, and see "Other Developments" discussed later for further additional details on the ownership of EUVÍA and HSE-Italy.) HOT Networks' operations in UK, Belgium and France have been discontinued. Summary financial information for HOT Networks is presented below.

|                         | <b>As of and For the<br/>Six Months Ended<br/>June 30,</b> |             |
|-------------------------|--|-------------|
|                         | <b>2002</b>  | <b>2001</b> |
|                         | (In Thousands)   |             |
| Current assets          | \$ 13,632  | \$ 18,138   |
| Non-current assets      | 178,101  | 105,714     |
| Current liabilities     | 38,709   | 43,354      |
| Non-current liabilities | 261,370  | 104,130     |
| Net sales               | 9,215  | 11,001      |
| Gross profit            | 1,477  | 2,473       |
| Net loss                | (47,543)   | (38,501)    |

Through July 31, 2002, the Company made investments in and advances to HOT Networks of approximately \$164.9 million, including \$8.3 million in July 2002, and recorded equity losses in unconsolidated subsidiaries of \$118.5 million, including \$100.6 million in the six months ended June 30, 2002. The loan balance as of June 30, 2002 was \$38.1 million. As noted above, the Company has entered into various agreements with its European partners such that HSN owns 100% of HOT Networks.

#### **Funding Obligations of HOT Networks for EUVÍA**

HOT Networks holds a 48.6% limited partnership interest in EUVÍA Media AG and Co. KG ("EUVÍA"), a German limited partnership. EUVÍA, through certain subsidiaries, operates two businesses, "Live TV," a game show oriented TV channel, and "Travel TV," a travel oriented shopping TV channel under the brand name "Sonnenklar." In connection with the partnership formed to operate these businesses, HOT Networks has undertaken to fund 100% of the cash requirements and operating losses up to € 179 million, with the funding obligations terminating if EUVÍA remains profitable for two consecutive fiscal years. Through June 30, 2002, HOT Networks has funded EUVÍA with approximately € 55 million. Based on EUVÍA's current business plan, HOT Networks expects an additional € 10 million of funding may be required prior to EUVÍA achieving profitability for two consecutive fiscal years. In the event EUVÍA's current business plan is revised to require additional funding to achieve profitability for two consecutive years, HOT Networks may have additional contractual rights exercisable on or after June 30, 2003 that reduce its ongoing funding obligations below € 179 million assuming it has met certain funding thresholds as of June 30, 2003. Although it is not expected that these additional contractual rights will prove relevant in light of EUVÍA's current business plan, HOT Networks continues to actively monitor EUVÍA's funding requirements.

#### **NOTE 7 GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill and other intangible assets is comprised of goodwill of \$5.5 billion, intangible assets with indefinite lives of \$325.6 million related primarily to tradenames acquired in the Expedia transaction, and other intangible assets of \$389.4 million. The other intangible assets relate primarily to purchased technology, distribution agreements, customer lists and supplier relationships, and include \$230.0 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 2 to 10 years. Amortization expense for intangible assets for the three months ended June 30, 2002 and 2001 was approximately \$29.4 million and \$19.5 million, respectively, and for

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the six months ended June 30, 2002 and 2001 \$50.7 million and \$39.1 million respectively. Amortization expense based on June 30, 2002 balances for the next five years is estimated to be as follows (in thousands):

|   |            |
|---|------------|
| Six months ended December 31, 2002          | \$ 61,322  |
| Year ended December 31, 2003                | 117,168    |
| Year ended December 31, 2004                | 88,601     |
| Year ended December 31, 2005                | 49,666     |
| Year ended December 31, 2006                | 45,515     |
| Year ended December 31, 2007 and thereafter | 27,151     |
|   | \$ 389,423 |

Reported net earnings (loss) 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:

|  | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|--|--------------------------------|-------------|------------------------------|-------------|
|  | 2002                           | 2001        | 2002                         | 2001        |
|  |                                |             |                              |             |
| <b>INCOME/(LOSS) FROM CONTINUING OPERATIONS AVAILABLE TO COMMON SHAREHOLDERS</b> |                                |             |                              |             |
| Reported earnings (loss) from continuing operations, available                   | \$ (114,608)                   | \$ (33,860) | \$ (112,605)                 | \$ (77,483) |
| Add: goodwill amortization from continuing operations                            |                                | 33,522      |                              | 66,732      |
| Net earnings (loss) from continuing operations as adjusted                       | \$ (114,608)                   | \$ (338)    | \$ (112,605)                 | \$ (10,751) |
| <b>Basic Earnings per share from continuing operations as adjusted:</b>          |                                |             |                              |             |
| Reported basic net earnings (loss) per share                                     | \$ (0.28)                      | \$ (0.09)   | \$ (0.28)                    | \$ (0.21)   |
| Add: goodwill amortization   |                                | 0.09        |                              | 0.18        |
| Adjusted basic net earnings (loss) per share                                     | \$ (0.28)                      | \$ 0.00     | \$ (0.28)                    | \$ (0.03)   |
| <b>Diluted Earnings per share from continuing operations as adjusted:</b>        |                                |             |                              |             |
| Reported diluted net earnings (loss) per share                                   | \$ (0.28)                      | \$ (0.09)   | \$ (0.28)                    | \$ (0.21)   |
| Add: goodwill amortization   |                                | 0.09        |                              | 0.18        |
| Adjusted diluted net earnings (loss) per share                                   | \$ (0.28)                      | \$ 0.00     | \$ (0.28)                    | \$ (0.03)   |

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### NET INCOME AVAILABLE TO COMMON SHAREHOLDERS

|   |              |           |              |            |
|---|--------------|-----------|--------------|------------|
| Income (loss) available to common shareholders(a) | \$ 2,270,576 | \$ 39,551 | \$ 1,833,120 | \$ 12,981  |
| Add: goodwill amortization                        |              | 45,202    |              | 88,757     |
|   | \$ 2,270,576 | \$ 84,753 | \$ 1,833,120 | \$ 101,738 |



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Net earnings (loss) available to common shareholders as adjusted

| <b>Basic Earnings per share as adjusted:</b>   |    |      |    |      |                 |
|--|----|------|----|------|-----------------|
| Reported basic net earnings (loss) per share   | \$ | 5.51 | \$ | 0.11 | \$ 4.55 \$ 0.03 |
| Add: goodwill amortization                     |    |      |    | 0.12 | 0.24            |
| Adjusted basic net earnings (loss) per share   | \$ | 5.51 | \$ | 0.23 | \$ 4.55 \$ 0.27 |
| <b>Diluted Earnings per share as adjusted:</b> |    |      |    |      |                 |
| Reported diluted net earnings (loss) per share | \$ | 5.51 | \$ | 0.11 | \$ 4.55 \$ 0.03 |
| Add: goodwill amortization                     |    |      |    | 0.12 | 0.24            |
| Adjusted diluted net earnings (loss) per share | \$ | 5.51 | \$ | 0.23 | \$ 4.55 \$ 0.27 |

(a)

Includes cumulative effect of accounting change in 2002 related to the adoption of FAS 142 and in 2001 related to the adoption of SOP 00-2, Accounting by Producers or Distributors of Films.

The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill for the six months ended June 30, 2002 (in thousands):

|   | Balance as of<br>January 1, 2002 | Additions    | FX<br>Translation | Adoption<br>of<br>FAS 142 | Balance as of<br>June 30, 2002 |
|---|----------------------------------|--------------|-------------------|---------------------------|--------------------------------|
| HSN-US  | \$ 1,162,575                     | \$ 1,762,746 | \$                | \$                        | \$ 2,925,321                   |
| Ticketing   | 729,442                          | 6,439        | 2,385             |                           | 738,266                        |
| Match.com   | 45,738                           | 17,911       | 1,315             |                           | 64,964                         |
| Hotels.com  | 362,464                          | 30           |                   |                           | 362,494                        |
| Expedia   |                                  | 940,449      |                   |                           | 940,449                        |
| PRC   | 696,778                          |              |                   | (384,455)                 | 312,323                        |
| Citysearch and related                              | 58,994                           |              |                   | (58,994)                  |                                |
| TVTS  |                                  | 144,025      |                   |                           | 144,025                        |
| International TV shopping & other                   | 14,138                           |              |                   |                           | 14,138                         |
| USA Electronic Commerce Solutions<br>LLC/Styleclick |                                  |              |                   |                           |                                |
|   | \$ 3,070,129                     | \$ 2,871,600 | \$ 3,700          | \$ (443,449)              | \$ 5,501,980                   |

In addition, in the second quarter of 2002, USA recorded a further write-down of \$22.2 million related to PRC. The write-down resulted from contingent purchase price recorded in the second quarter.

The amount of amortization of intangibles in future periods could be greater due to two factors. In relation to the VUE Transaction and the exchange of Holdco and LLC shares by Liberty, the businesses that were owned by USANi LLC, primarily HSN, HSN-International and ECS/Styleclick, which USA retained after the transaction, are treated as an acquisition by USA of the minority interests in these entities. Thus, USA has recorded a step-up to its carrying value based on the fair value of these businesses to the extent of the minority interest acquired. The step-up for the portion

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not previously owned by USA is approximately \$1.8 billion. In addition, in May 2002 the Company acquired TVTS, resulting in approximately \$144.0 million which has been preliminarily allocated to goodwill. USA has not completed its allocation of the purchase price of these transactions, as it is in the process of obtaining an independent valuation of the assets and liabilities acquired, including identification of intangibles other than goodwill. Potential intangible assets that USA may identify include trade names and trademarks, supply agreements, customer relationships, technology and commercial arrangements. USA expects to complete the allocation of the purchase price during the fourth quarter of 2002.

### NOTE 8 RESTRUCTURING CHARGES

Restructuring related expenses were \$40.2 million (\$34.7 million impacting Adjusted EBITDA) in the three and six months ended June 30, 2002 versus \$10.5 million (\$4.8 million impacting Adjusted EBITDA) in the three and six months ended June 30, 2001. The 2002 amounts relate to various initiatives across business segments, including \$16.2 million for ECS related to rationalizing the business, \$14.8 million for HSN-International related to the shut-down of HSN-Espanol, the Company's Spanish language electronic retailing operation and \$9.3 million for PRC related principally to the shut-down of three call centers and employee layoffs. Costs that relate to ongoing operations are not part of the restructuring charges and are not included in "Restructuring Charges" on the statement of operations. Furthermore, all one-time inventory and accounts receivable adjustments that may result from the actions are classified as operating expenses in the statement of operations. The 2001 amounts relate to the restructuring of the operations of Styleclick.

For the six months ended June 30, 2002, the charges associated with the restructurings were as follows (in thousands):

|                                 |           |
|---------------------------------|-----------|
| Continuing lease obligations    | \$ 12,479 |
| Asset impairments               | 5,497     |
| Employee termination costs      | 4,981     |
| Prepaid cable distribution fees | 10,852    |
| Other                           | 6,405     |
|                                 | <hr/>     |
|                                 | \$ 40,214 |
|                                 | <hr/>     |

Continuing lease obligations primarily relate to excess call center, warehouse and office space of PRC and ECS. Asset impairments relates primarily to leasehold improvements that are being abandoned. Prepaid cable distribution fees relates to non-refundable upfront amounts paid by HSN-Espanol for carriage, primarily in Mexico.

As of June 30, 2002, the Company has a balance of \$35.0 million accrued, as \$3.2 million of the charge related to the write-off of assets and \$2.0 million was paid during the quarter related to the restructuring reserve.

### NOTE 9 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 VUE. 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 (economic interests in a portion of his common interests have been assigned by Mr. Diller to three executive officers 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 Studios, Inc. ("Universal") at its then accreted 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 retired approximately 320.9 million USANi LLC shares previously owned by Vivendi, thereby reducing USA's fully diluted shares to approximately 472 million shares as of June 30, 2002.

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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 million 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 a subsidiary of Vivendi 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, received a common interest in VUE with a 1.5% profit sharing percentage, with a minimum value of \$275.0 million (economic interests in a portion of his common interests have been assigned by Mr. Diller to three executive officers of USA), 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.

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USA's contribution of businesses to VUE and the receipt of consideration by USA results in an after tax gain of \$2.4 billion. The gain was determined as follows (in thousands):

|  |              |
|--|--------------|
| Estimated fair value:  |              |
| Class A preferred interest in VUE  | \$ 514,000   |
| Class B preferred interest in VUE  | 1,428,530    |
| Common interest in VUE   | 1,000,000    |
| Cash   | 1,618,710    |
| Estimated step-up in fair value of Home Shopping resulting from cancellation of LLC shares | 1,213,876    |
|  |              |
| Total book value of consideration  | 5,775,116    |
| Entertainment net assets sold, net of minority interest                                    | (498,046)    |
| Transaction costs  | (29,544)     |
|  |              |
| Pre tax gain   | 5,247,526    |
| Tax provided at 39.225%  | (2,058,342)  |
|  |              |
| Taxable gain before allocation to warrant value  | 3,189,184    |
| Fair value of warrants   | (810,873)    |
|  |              |
| Book value   | \$ 2,378,311 |
|  |              |

In a press release dated August 14, 2002, the day of this filing, Vivendi announced its unaudited, preliminary income statement data, presented on a French GAAP basis. The press release stated that "in light of deteriorating economic conditions since December 2001 and the impact of higher financing costs for the company, management has recorded a preliminary impairment charge", with an amount associated to VUE of 2.6 billion euros as of June 30, 2002. The press release further stated that the reported adjustment "reflects [Vivendi] management's opinion of the fair value of the core assets on a permanent ongoing concern basis with Vivendi". USA owns various securities in VUE, including a 5.44% common interest, with USA's common interest subject to a call right beginning in 2007, and USA having a put right beginning in 2010, in both cases based on private market values at the time. USA believes that its circumstances, including its financing cost, are, at present, very different than Vivendi's, and that the entertainment assets have significant long-term value, although market valuations of media assets have declined since the close of the VUE transaction on May 7, 2002. USA believes that it is too early to determine whether potential declines in its VUE common interest are other than temporary and will assess the carrying value of the VUE securities on a continuing basis. USA believes that the action taken by Vivendi today has no bearing on the value of its preferred partnership interests in VUE, which are senior to the common interests.

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To the extent that USA management subsequently determines that the declines are other than temporary, USA may take an equity write-down of its common interest to fair value. Furthermore, USA may record an equity loss for its proportionate common interest in VUE, if the venture also records a write-down of the assets under US GAAP.

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### NOTE 10 DISCONTINUED OPERATIONS

The USA Entertainment Group, which was contributed to VUE on May 7, 2002, is presented as discontinued operations for all applicable periods presented. The revenues and net income, net of the effect of minority interest for the USA Entertainment Group, were as follows:

|   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|---|--------------------------------|------------------|------------------------------|------------------|
|   | 2002                           | 2001             | 2002                         | 2001             |
|   | (In Thousands)                 |                  |                              |                  |
| Net revenue                             | \$ 188,472                     | \$ 507,858       | \$ 593,450                   | \$ 999,999       |
| Income before tax and minority interest | 34,264                         | 116,767          | 135,837                      | 236,289          |
| Tax expense                             | (8,489)                        | (22,938)         | (24,719)                     | (44,849)         |
| Minority interest                       | (18,902)                       | (70,247)         | (82,315)                     | (141,618)        |
|   | <u>\$ 6,873</u>                | <u>\$ 23,582</u> | <u>\$ 28,803</u>             | <u>\$ 49,822</u> |

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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### Item 4. Controls and Procedures

Within the 90-day period prior to the filing date of this report, the Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation.

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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.

November 13, 2002

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USA INTERACTIVE

By: /s/ WILLIAM J. SEVERANCE

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

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## CERTIFICATIONS

I, Barry Diller, Chairman and Chief Executive Officer of USA Interactive, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of USA Interactive;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ BARRY DILLER

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Barry Diller  
Chairman and Chief Executive Officer  
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I, Dara Khosrowshahi, Executive Vice President and Chief Financial Officer of USA Interactive, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of USA Interactive;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a)

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all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ DARA KHOSROWSHAHI

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Dara Khosrowshahi  
Executive Vice President and Chief Financial  
Officer

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