INTERACTIVECORP
Form 10-K/A
February 11, 2004

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As filed with the Securities and Exchange Commission on February 10, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

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

For the Fiscal Year Ended December 31, 2002

INTERACTIVECORP

(Exact name of registrant as specified in its charter)

Commission File No. 0-20570

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

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

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 par value
Warrants to acquire Common Stock

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 ý No o

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

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

As of January 31, 2003, the following shares of the Registrant's common stock were outstanding:

Common Stock	431,237,119
Class B Common Stock	64,629,996
Total	495,867,115

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of January 31, 2003 was $7,640,340,170. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

Documents Incorporated By Reference:

Portions of the Registrant's proxy statement for its 2003 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

EXPLANATORY NOTE

The Registrant hereby amends in its entirety Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Consolidated Financial Statements and Supplementary Data, contained in InterActiveCorp's Annual Report on Form 10-K for the year ended December 31, 2002 (the "Original Form 10-K"), as described. This Amendment No. 1 to the Annual Report on Form 10-K/A is being filed to make certain changes in response to comments received from the Securities and Exchange Commission. This Amendment reflects balance sheet reclassifications as well as additional disclosures in order to provide a more expansive and detailed presentation. We have also included a revised Exhibit Index in Item 15, Exhibits, Financial Statement Schedules and Reports on Form 10-K, to reflect the filing of Rule 3-09 financial statements of certain equity investments, certifications of certain executive officers and consent letters from Ernst & Young LLP and KPMG in connection with this Amendment No. 1 on Form 10K/A.

The changes made reflect (i) expanded disclosure in the MD&A of the results of HSN and Ticketmaster and discussion of occupancy tax reserves at Expedia and Hotels.com, (ii) expanded discussion in critical accounting policies of HSN sales returns and sensitivity of non-cash compensation to changes in volatility and interest rates, (iii) balance sheet reclassification of certain assets and liabilities, including classification of auction rate securities with a reset feature within 90 days as marketable securities rather than cash and cash equivalents and (iv) additional footnote disclosure of accounting policies regarding estimated return percentages of HSN and classification of expenses by Hotels.com and Expedia, acquisitions and dispositions, including Expedia, the step-up in basis of HSN and taxes related to the VUE transaction and the impact of non-cash revenue on cash flows and summarized aggregated financial information for the Company's equity investments. In addition, the Company has expanded its disclosure of certain valuation and qualifying accounts.

This Amendment only reflects the changes discussed above. All other information included in the Original Form 10-K has not been amended by this Form 10 K/A to reflect any information or events subsequent to the filing of the Original Form 10-K.

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PART II

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

General

USA Interactive ("USA" or the "Company") (Nasdaq: USAI) engages worldwide in the business of interactivity via the Internet, television and the telephone. USA operates multiple brands across three areas: Electronic Retailing, Information and Services and Travel Services. Electronic Retailing is comprised of HSN, America's Store, HSN.com, and Home Shopping Europe and EUVÍA in Germany. Information and Services includes Ticketmaster, Match.com, Citysearch, Evite and Precision Response Corporation. Travel Services consists of Expedia (Nasdaq: EXPE), Hotels.com (Nasdaq: ROOM), Interval International ("Interval"), TV Travel Shop and USA's forthcoming U.S. cable travel network.

Through May 7, 2002, the Company also included the USA Entertainment Group, consisting 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 (the "VUE Transaction") and the results of operations and statement of position of USA Entertainment are presented as a discontinued operation. See Note 20 in the Notes to Consolidated Financial Statements for further discussion of the VUE Transaction.

Recent Developments

On February 4, 2002, USA completed its acquisition of a controlling interest in Expedia. In the merger, USA issued to former holders of Expedia common stock who elected to receive USA securities an aggregate of approximately 20.6 million shares of USA common stock, approximately 13.1 million shares of $50 face value of 1.99% cumulative convertible preferred stock of USA and warrants to acquire approximately 14.6 million shares of USA common stock at an exercise price of $35.10 per share. On March 19, 2003, USA announced it would acquire the Expedia shares it does not currently own. See Note 24 for further discussion.

In connection with the VUE Transaction, shares of USANi LLC held by Liberty Media Corporation ("Liberty") were exchanged for 7.1 million USA shares, with the remaining approximately 320.9 million USANi LLC shares held by Vivendi (including USANi shares obtained from Liberty) 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 31.6 million shares of Common Stock and 1.6 million 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, in substantially the same manner, as they would have been if USA held them directly through wholly owned subsidiaries.

On September 24, 2002, the Company completed its acquisition of Interval, a leading membership-services company providing timeshare exchange and other value-added programs to its timeshare-owner consumer members and resort developers, for approximately $541.4 million in cash, less $16.2 million of cash acquired.

On January 17, 2003, the Company completed its acquisition of the outstanding shares of Ticketmaster that it did not already own. The acquisition was accomplished by the merger of a wholly owned subsidiary of USA into Ticketmaster, with Ticketmaster surviving as a wholly owned subsidiary of USA. In the merger, each outstanding share of Ticketmaster Class A common stock and

Ticketmaster Class B common stock (other than shares held by USA, Ticketmaster and their subsidiaries) was converted into the right to receive 0.935 of a share of USA common stock. USA issued an aggregate of approximately 45.5 million shares of USA common stock, and assumed approximately 8.9 million stock options and 4.2 million warrants in the merger. Shares of Ticketmaster Class B common stock, which prior to the merger traded on the Nasdaq National Market under the symbol "TMCS," were delisted from trading as of the close of the market on January 17, 2003.

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 LLLP ("VUE"). Vivendi and its subsidiaries control VUE, with the common interests owned 93.06% by Vivendi and its subsidiaries, 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).

See Note 20 in the Notes to Consolidated Financial Statements for further discussion.

Adoption of New Accounting Rules for Goodwill and Other Intangible Assets

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," in its entirety. In connection with the adoption of this standard, the Company has not amortized any goodwill or indefinite-lived intangible assets during 2002. Prior to the adoption, all intangible assets were amortized over their estimated periods to be benefited, generally on a straight-line basis. Therefore, the results of operations for 2001 and 2000 reflect the amortization of goodwill and indefinite-lived intangible assets, while the results of operations for 2002 do not reflect such amortization (see Note 4 Goodwill and Other Intangible Assets for a pro forma disclosure depicting the Company's results of operations during 2001 and 2000 after applying the non-amortization provisions of SFAS No. 142). Goodwill amortization recorded in continuing operations for the years ended December 31, 2001 and 2000 was $215.4 million and $383.1 million, respectively. Goodwill amortization recorded in discontinued operations for the years ended December 31, 2001 and 2000 was $127.9 million and $117.6 million, respectively. In connection with the implementation of SFAS No. 142, the Company was required to assess goodwill and indefinite-lived intangible assets for impairment. As previously discussed in USA's Form 10-Q for the quarter ended March 31, 2002, USA recorded a write-off before tax and minority interest of $499 million related to the Citysearch and PRC businesses as a cumulative effect of accounting change. 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 did not support current carrying values at the time of the evaluation on January 1, 2002. 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 after-tax, after minority interest charge of $461.4 million. The charge is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations as of January 1, 2002. See Note 4 for additional information regarding goodwill.

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.

Additionally, pursuant to SFAS No. 142, the Company assesses goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. As of December 31, 2002, the Company determined that the carrying value of such assets were not impaired.

Adjusted EBITDA

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating profit (loss) 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) non-recurring items, including disengagement expenses and restructuring charges not impacting EBITDA. 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.

See Note 23 in the Notes to Consolidated Financial Statements for a reconciliation of Adjusted EBITDA to operating income by segment.

The following is a reconciliation of Operating Profit (Loss) to Adjusted EBITDA for 2002, 2001 and 2000:

	Twelve Months Ended December 31,		
	2002	**2001**	**2000**
Operating profit (loss)	$ 86,753	$ (216,423)	$ (349,746)
Amortization of cable distribution fees	53,680	43,975	36,322
Amortization of non-cash distribution and marketing	37,344	26,385	11,665
Amortization of non cash compensation expense	15,899	7,800	12,740
Depreciation	177,219	131,308	105,380
Amortization of intangibles	146,183	294,583	314,768
Goodwill impairment	22,247		145,594
Disengagement expenses	31,671	4,052	
Restructuring charges not impacting EBITDA	39,129	6,248	
Adjusted EBITDA	$ 610,125	$ 297,928	$ 276,723

Revenue Presentation for Merchant Hotel Business

As previously announced, USA voluntarily requested the SEC to review the presentation of revenue by Hotels.com and Expedia for merchant hotel revenue, as Hotels.com presents such revenue on a gross basis and Expedia on a net basis. The SEC has concluded its review, and will not object to the revenue presentation that each of the companies have historically used. See a full discussion of revenue presentation under Critical Accounting Policies below.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" which amends FASB Statement No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of FASB Statement No. 123. The transition guidance and annual disclosure provisions are effective for financial reports containing financial statements for fiscal year ending after December 15, 2002. The Company will provide expense for stock based compensation on a prospective basis, and will continue to provide pro forma information in the notes to financial statements to provide the results as if SFAS 123 had been adopted in previous years. The Company intends to issue restricted stock units that will vest in future periods

instead of stock options, although the Company's public subsidiaries may issue some employee stock options in 2003 as they complete the transition to 100% restricted stock. For restricted stock units issued, the accounting charge is measured at the grant date and amortized ratably as non-cash compensation over the vesting term.

This report includes forward-looking statements within the meaning of the private securities litigation reform act of 1995. These statements include, but are not limited to statements relating to such matters as anticipated financial performance, business prospects, new developments, new merchandising strategies and similar matters. These forward-looking statements are necessarily estimates reflecting the best judgment of company management and involve a number of risks and uncertainties that could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include, but are not limited to, the following: material adverse changes in economic conditions generally or in the markets or industries served by the Company; future regulatory and legislative actions and conditions affecting the Company's operating areas; competition from others; successful integration affecting the Company's operating units management structures; product demand and market acceptance; the ability to protect proprietary information and technology or to obtain necessary licenses on commercially reasonable terms; the ability to maintain the integrity *of the Company's systems and infrastructure; the ability to expand into and successfully operate in foreign markets; obtaining and retaining key executives and employee; acts of terrorism; and war or political instability.*

Results of Operations for the Year Ended December 31, 2002 vs. Year Ended December 31, 2001

CONTINUING OPERATIONS

HSN-U.S.

Operating Results

Net revenues in 2002 decreased slightly by $47.7 million, or 2.9%, to $1.6 billion from $1.7 billion in 2001 due to HSN's continued focus on higher margin products, the challenging retail environment in 2002 and disengagement (see below). Top-line revenue decreased, as the average price point for the year decreased to $45.46 in 2002 from $47.63 in 2001 on slightly increased units shipped. However, gross margin at HSN increased 320 bps, to 37.2% in 2002 compared to 34.0% in 2001 due primarily to the impacts of a shift in product mix from lower margin products such as computers and electronics to higher margin products such as Ready to Wear, Health and Beauty and Home Fashions. Computers and electronics comprised approximately 5% more of total sales in 2001 as compared to 2002, and carry a margin of approximately 22%. Ready to wear, Health and Beauty and Home Fashions comprised approximately 6% more of total sales in 2002 as compared to 2001, and carried a margin in 2002 of approximately 42%. Margins were also positively impacted in 2002 due to improvements in return rates (18.6% in 2002 from 18.9% in 2001) and $11.8 million less pricing incentives. Returns had a favorable impact on margins of $7.5 million. In addition, net shipping and handling revenue increased due in part to lower shipping and handling costs of $5.9 million, including efficiency improvements at the Company's California warehouse facility that opened in 2001 and lower costs for drop ship due to a shift in product mix, as the Company uses drop ship primarily for computers and electronics. Adjusted EBITDA increased $39.8 million, or 17.2%, to $272.0 million in 2002 from $232.2 million in 2001. In addition to the impacts on gross margins discussed above, operating expenses in 2002 were positively impacted by increased sales via HSN.com, which accounted for 12%, or $187.0 million, of sales in 2002 versus 8%, or $121.0 million, in 2001. Sales via HSN.com result in lower costs per order. In addition, amounts paid to broadcasters in 2002 decreased $7.3 million, due principally to the Company entering new cable distribution agreements as a result of disengagement. Adjusted EBITDA in 2001 was

adversely impacted by the events of September 11th as viewers turned to coverage of the events. In fact, HSN ceased live programming for a short period after the events of September 11th and aired live news programming from USA Cable's NWI. As previously disclosed, 2002 revenue was impacted by the disengagement of former USAB broadcast stations that aired Home Shopping programming in late 2001 and early 2002 (see below for further discussion).

Adjusted EBITDA for 2002 and 2001 excludes amortization of cable distribution fees of $52.4 million and $41.6 million, respectively, disengagement costs of $31.7 million and $4.1 million, respectively, and amortization of intangibles of $32.6 million and $0.9 million, respectively. The large increase in intangibles in 2002 is due to the step-up in basis of HSN assets resulting from the VUE transaction and the Holdco exchange. Cable distribution fees increased as a result of new long-term carriage agreements signed in late 2001 and early 2002. Charges of $1.2 million were incurred in 2001 related to employee terminations.

On a pro forma basis based on the estimated impact of disengagement for the 2001 results, net revenues for 2002 increased slightly by $91.8 million, or 6.0%, to $1.61 billion from $1.52 billion, while Adjusted EBITDA improved $62.0 million, or 29.5%, to $272.0 million in 2002 from $210.0 million in 2001. See below for further discussion of disengagement.

Disengagement

As noted in the Company's previous filings, the majority of the USAB stations sold to Univision are located in the largest markets in the country and aired HSN on a 24-hour basis. As of January 2002, HSN switched its distribution in these markets directly to cable carriage. As a result, HSN initially lost approximately 12 million broadcast homes and accordingly, HSN's operating results were affected. Based on current estimates, HSN believes that lost sales, translated on a pro forma basis for 2001, were $137.4 million, and estimated lost Adjusted EBITDA was $27.4 million. These amounts are higher than original estimates. In addition, in order to effectively transfer HSN's distribution to cable, in 2002, HSN incurred charges of approximately $31.7 million, in the form of payments to cable operators and related marketing expenses, including $2.2 million of redemptions of coupons offered to customers impacted by disengagement. HSN expects that total disengagement expenses will be approximately $100 million, which payment will offset HSN's pre-tax proceeds from the Univision transaction, which totaled $1.1 billion. These disengagement costs are excluded from Adjusted EBITDA. The Company has supplemented its discussion of HSN's results above by including a comparison of 2002 to 2001, adjusted for the estimated impact of disengagement on revenues and Adjusted EBITDA.

Ticketing Operations

Net revenues in 2002 increased by $75.5 million, or 13.0%, to $655.2 million from $579.7 million in 2001 primarily due to an increase in the number of tickets sold and an increase in average revenue per ticket. The increase in tickets sold primarily reflects Ticketing's successful growth efforts in its existing domestic and international markets, further increased by the acquisition of Ticketmaster-Norway in October 2001 and Ticketmaster-Netherlands in June 2002, which resulted in increased revenue of $4.9 million. Adjusted EBITDA increased by $41.7 million, or 39.3%, to $148.0 million from $106.2 million due to Ticketing's strong ticket sales and improved margins in its domestic and international operations. Adjusted EBITDA increased related to the Netherlands and Norway by $1.1 million. The total number of tickets sold increased 9.7% to 95.1 million tickets sold in 2002 compared to 86.7 million tickets sold in 2001. Tickets sold online accounted for 40.6% of the tickets sold in 2002 compared to 32.1% in 2001, demonstrating the continued migration of sales online. The increases in revenue and Adjusted EBITDA were also impacted by adverse effects in 2001 related to the events surrounding September 11, 2001.

Adjusted EBITDA for 2002 and 2001 excludes non-cash amortization of intangibles of $9.6 million in 2002 and $10.0 million in 2001, non-cash distribution and marketing expense of $1.0 million in 2002 and $0.4 million in 2001, and non-cash compensation of $0.4 million in 2002 and $1.1 million in 2001. Non-cash distribution and marketing refers to barter arrangements for distribution secured from third parties, whereby advertising is provided by Ticketmaster to a third party in return for distribution over the third party's network. The advertising provided has been secured from USA, which in turn has secured the non-cash advertising pursuant to an agreement with Universal TV (formerly USA Cable) related to the VUE Transaction. Sufficient advertising has been secured to satisfy existing obligations.

Hotels.com

Net revenues in 2002 increased by $408.9 million, or 76.2%, to $945.4 million from $536.5 million in 2001, and Adjusted EBITDA increased by $49.2 million, or 60.4%, to $130.6 million from $81.4 million. The increase in net revenues was primarily attributable to the growth of the new website and brand, hotels.com, and the growth in travel and lodging bookings through the Internet. Revenues also increased due to the addition of new cities in which Hotels.com offers hotel rooms, an increase in hotels offered in existing cities, and an increase in room allotments available for sale. In 2002, Hotels.com generated increases of 84.7% in room nights sold (to 7.8 million merchant room nights in 2002 from 4.2 million merchant room nights in 2001) in part due to the addition of 147 new markets in 2002, including 85 new markets in international locations, a 69.1% increase in properties and a 42.7% increase in affiliates, which generate sales of rooms in exchange for commissions. Revenues derived through Hotels.com's agreement with Travelocity, its largest affiliate, accounted for approximately 17.7% of total revenues in 2002 and 18.0% of total revenues in 2001. The increase in revenue was also attributable to the growth of revenue from international and vacation rental properties. Revenue from properties in Europe, Canada, Mexico, the Caribbean and Asia increased 176.5% to $125.7 million in 2002 from $45.5 million in 2001. Revenue from Hotel.com's vacation rentals, which include condominiums, timeshares and vacation homes, increased 147.1% to $25.5 million in 2002 from $10.3 million in 2001. Hotels.com incurred increased advertising and promotional costs, including costs associated with the launch and branding of the new hotels.com website and an increase in personnel costs, credit card fees and affiliate commissions resulting from the growth in net revenues. The gross profit percentage decreased slightly to 30.4% in 2002 from 31.0% in 2001 due primarily to occupancy tax expense of $1.3 million as a result of a reserve established in 2002 for contingent occupancy tax liabilities. No reserves for contingent occupancy taxes were established prior to 2002.

Adjusted EBITDA excludes non-cash amortization of intangibles of $2.2 million in 2002 and $0.6 million in 2001, non-cash distribution and marketing expense of $18.7 million in 2002 and $17.0 million in 2001 related to the amortization of stock-based warrants issued to affiliates in consideration of exclusive affiliate distribution and marketing agreements and $0.9 million in 2002 related to cross-promotion advertising provided by USA Cable prior to May 7, 2002. Hotels.com expects that the amount of non-cash distribution and marketing expense could grow, as certain of the warrants are performance based, the value of which is determined at the time the performance criteria are met. To the extent that Hotel.com's stock price rises, the value of the warrants also increases. Included in Adjusted EBITDA for 2002 is a charge of $0.6 million related to the terminated exchange offer by USA.

Expedia

Actual Results

USA completed its acquisition of a controlling interesting in Expedia on February 4, 2002. Net revenues and Adjusted EBITDA for the period February 4, 2002 to December 31, 2002 were $553.7 million and $162.8 million, respectively. For the period February 4, 2002 to December 31, 2002, Adjusted EBITDA excludes $41.2 million of non-cash amortization of intangible assets, $13.1 million of non-cash marketing relating to advertising provided by USA and $5.6 million of non-cash compensation, resulting primarily from the amortization of the intrinsic value of unvested stock options, which arose from Expedia's initial public offering in November 1999. The advertising provided has been secured from USA, which in turn has secured the non-cash advertising pursuant to an agreement with Universal TV (formerly USA Cable) related to the VUE Transaction. Sufficient advertising has been secured to satisfy existing obligations. On July 14, 2002, Expedia acquired Metropolitan Travel in conjunction with Expedia's launch into the corporate travel market. The Company recorded occupancy tax expense of $6.0 million as a result of a reserve established in 2002 for contingent occupancy tax liabilities for the period subsequent to acquisition. In addition, the Company established an additional liability of $3.1 million as a purchase liability related to contingent occupancy tax liabilities for the period prior to acquisition. No reserves for contingent occupancy taxes were established prior to 2002. Included in Adjusted EBITDA for 2002 is a charge of $1.7 million related to the exchange offer proposed by USA.

Supplemental Pro Forma Information

Pro forma information for 2002 and 2001, giving effect to the Expedia transaction as of the beginning of the periods presented, is as follows:

Net revenues in 2002 increased by $292.3 million, or 98.4%, to $589.2 million from $296.9 million in 2001, while Adjusted EBITDA increased by $112.8 million, or 185.4%, to $173.7 million from $60.9 million in 2001. In 2002, Expedia experienced an overall growth in revenues. Expedia's hotel business increased due to greater number of hotels available for customers to choose from, increased number of room nights stayed and the customer having the flexibility to purchase hotel rooms as a stand-alone product or combined with other travel products in a package. The acquisition of Classic Custom Vacations ("CCV") in March 2002, a provider of customized vacation packages to Hawaii, Mexico, North America, Europe, and the Caribbean, contributed to Expedia's growth as well. In addition, the number of airline ticket transactions increased which was primarily offset by a decline in commission per ticket resulting from a decline in commissions paid by airlines. Beginning in December 2002, a service fee is being charged to customers for most airline tickets booked on Expedia's U.S. websites, and Expedia expects revenues generated from this service fee to have a positive impact on revenue per ticket. Also, in July 2002, Expedia introduced corporate travel as part of the acquisition of Metropolitan Travel Inc. Merchant and agency revenues relating to international markets increased year over year due to an increase in marketing and development activities in past years and increased partnerships with local hotels which has resulted in increased airline ticket and hotel transactions. As Expedia continues to gain acceptance internationally, Expedia anticipates continued strong growth in international markets.

Gross margin decreased slightly from 2001. Excluding CCV and Metropolitan, gross profit for 2002 would have increased. CCV products have a lower gross margin than Expedia's other services, since CCV pays commissions to travel agents, which is part of the cost of merchant revenues. Expedia's gross margins increased, excluding CCV, due to high growth rates in Expedia's merchant business and reduced costs per transaction at Expedia's call centers. This reduction was achieved through website improvements and increased functionality on Expedia's websites which enabled Expedia's customers to make changes to their itinerary online and navigate through Expedia's websites more efficiently, thereby reducing the number of calls and e-mails to Expedia's call centers. In addition, Expedia have managed their call center costs more effectively, as they have been able to achieve greater economies of scale. Product development, sale and administrative costs have increased due to costs incurred related to the websites to improve the customer's buying experience and costs related to support the higher level of sales activity. Adjusted EBITDA in 2002 and 2001 excludes non-cash compensation of $6.6 million and $16.4 million, respectively, amortization of intangibles of $42.8 million and

$46.8 million, respectively, and non-cash distribution and marketing expenses of $13.1 million and $0.0, respectively. Included in Adjusted EBITDA for 2002 is a charge of $1.7 million related to the exchange offer proposed by USA.

The pro forma information is not necessarily indicative of the results of operations that actually would have been reported had this transaction occurred as of the beginning of January 1, 2001, nor are they necessarily indicative of USA Interactive's future results of operations.

PRC

Net revenues in 2002 decreased by $3.4 million, or 1.2%, to $295.2 million in 2002 from $298.7 million in 2001 and Adjusted EBITDA increased $1.9 million, or 7.2%, to $27.9 million in 2002 from $26.0 million in 2001, due to the difficult economic environment and pricing pressure offset by cost cutting initiatives. Net revenues in 2002 and 2001 include $9.9 million and $7.1 million, respectively, for services provided to other USA segments. Included in Adjusted EBITDA for 2002 are charges of $7.4 million related primarily to call center closures. Included in Adjusted EBITDA for 2001 are charges of $8.3 million related primarily to call center closures and employee terminations and benefits.

Match.com

Net revenues in 2002 increased by $75.9 million, or 154.3%, to $125.2 million compared to $49.3 million in 2001 due primarily to increased subscription revenue as average number of personals subscriptions increased 149% in 2002 compared to 2001. Subscriber growth came through all channels including partnerships, direct domains and affiliates. The growth was positively impacted, in part, by the acquisition of Soulmates in April 2002. Adjusted EBITDA increased by $19.5 million, or 118.4%, to $36.1 million for 2002 from $16.5 million in 2001. The slower EBITDA growth compared to revenue growth reflects a significant increase in offline advertising expense as the Company sought to aggressively grow consumer brand recognition in 2002. Adjusted EBITDA excludes non-cash distribution and marketing, which refers to barter arrangements for distribution secured from third parties, whereby advertising is provided by Match to a third party in return for distribution over the third party's network. The advertising provided has been secured from USA, which in turn has secured the non-cash advertising pursuant to an agreement with Universal TV (formerly USA Cable). Sufficient advertising has been secured to satisfy existing obligations. In 2002 and 2001 non-cash marketing was $5.7 million and $5.9 million, respectively.

Interval

USA completed its acquisition of Interval on September 24, 2002. Net revenues and Adjusted EBITDA for the period September 24, 2002 to December 31, 2002 were $38.7 million and $4.0 million, respectively.

International TV Shopping and Other

Operating Results

International TV shopping and other consisted primarily of HSE-Germany, EUVÍA and TV Travel Shop ("TVTS"). HSN-Espanol, which operated a Spanish language electronic retailing operation serving customers primarily in the United States and Mexico, was shut-down in the second quarter of 2002. For the entire segment, revenue increased $64.6 million, or 23.7%, to $337.1 million in 2002 from $272.6 million in 2001. The increase results from the consolidation of EUVÍA as of the third quarter of 2002, which resulted in increased revenue of $26.4 million, the acquisition of TVTS in the second

quarter of 2002, which resulted in increased revenue of $26.1 million, and increase in revenue of HSE-Germany of $25.6 million, or 10.3%, to $272.9 million in 2002 from $247.3 million in 2001 (note that the increase in sales in local currency was 4.6%), offset partially by decreased sales of HSN-Espanol of $13.7 million. Net revenues for HSE-Germany increased due to lower cancellation rates, higher shipped sales, and lower return rates in 2002 compared to 2001. For the entire segment, Adjusted EBITDA loss increased $3.9 million, to ($31.1) million in 2002 from ($27.2) million in 2001. Included in Adjusted EBITDA for 2002 are charges of $16.6 million, including a $14.8 million restructuring charge for the termination of the HSN-Espanol business. Adjusted EBITDA of HSE-Germany increased $2.3 million, to $8.4 million in 2002 from $6.1 million in 2001. The 2001 results reflect lower sales due to complications relating to the conversion to a new order management system, from which the company has recovered in 2002. New management at HSE-Germany is progressing in its work to reverse the negative impact suffered by the business in 2001. EUVÍA had Adjusted EBITDA of $3.6 million. TVTS had an Adjusted EBITDA loss of ($4.8) million in 2002. Adjusted EBITDA for 2002 and 2001 excludes amortization of cable distribution fees of $1.3 million and $2.4 million, respectively related to HSN-Espanol, amortization of intangibles of $0.6 million and $1.3 million, respectively, related to HSE-Germany and, $3.8 million related to TVTS for amortization of intangibles for 2002. In addition, during the third quarter of 2002, the Company decided to discontinue its active majority interest in the HSE-Italy business, which resulted in a non-EBITDA restructuring charge of $31.4 million. Included in Adjusted EBITDA for 2001 are charges of $1.6 million related primarily to employee terminations.

Other Developments

As previously disclosed, 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 increased its ownership interest to 100% of HOT Networks and approximately 90% of HSE-Germany, with Quelle, a large catalogue retailer based in Germany, owning the remainder. HOT Networks' principal assets are its direct and indirect interests in EUVÍA, a German limited partnership, and HSE-Italy (see below).

EUVÍA. HSN owns approximately 48.6% of EUVÍA, a German partnership that operates two TV broadcasting businesses in Germany. HSN expects that it will transfer 3% of its interest in EUVÍA to Dr. Georg Kofler with HSN retaining voting control of such shares through a voting rights agreement with Dr. Kofler. ProSiebenSat.1 Media AG, a large German television company, owns approximately 48.4% of EUVÍA. EUVÍA's CEO owns the remaining 3% of EUVÍA, over which HSN also has voting control.

HSE-Italy. During the third quarter of 2002, the Company decided to discontinue its active majority interest in Italy and wrote down its investment in Italy, resulting in a non-recurring charge of $31.4 million. HSN currently owns a minority interest in Home Shopping Europe S.p.A ("HSE-Italy") of approximately 36% through its German subsidiary HOT Networks, leaving HSN with a passive interest without any funding obligations.

Citysearch and Related

Net revenues in 2002 decreased by $15.3 million, or 33.3%, to $30.8 million compared to $46.1 million in 2001 due primarily to continued softness in the online advertising market as well as the Company's strategic decision to transition its revenue base to advertising products with better profit potential for the Company. The Adjusted EBITDA loss narrowed by $0.8 million, to $43.6 million in 2002 from $44.4 million in 2001 due to initiatives to reduce operating costs. Adjusted EBITDA excludes $46.3 million in 2002 and $66.9 million in 2001 in amortization of intangibles, $2.0 million in

2002 and $11.4 million in 2001 of non-cash distribution and marketing expense related to advertising provided by Universal TV (formerly USA Cable) and $6.4 million in 2002 and $1.4 million in 2001 of non-cash compensation. Included in Adjusted EBITDA for the 2002 are charges of $5.6 million related to the merger with USA that closed January 17, 2003. Included in Adjusted EBITDA for the 2001 are charges of $1.0 million related primarily to employee terminations.

USA Electronic Commerce Solutions LLC ("ECS")/Styleclick

Net revenues in 2002 increased by $5.0 million, or 14.5%, to $39.2 million compared to $34.2 million in 2001. The Adjusted EBITDA loss decreased by ($7.7) million, or 13.2%, to a ($50.6) million loss for 2002 from a ($58.4) million loss in 2001 due primarily to rationalizing the businesses. In 2002, ECS/Styleclick took a restructuring charge of $15.1 million related primarily to office closures and employee terminations, $0.9 million of which is for fixed asset write-offs that do not impact Adjusted EBITDA. In 2002, ECS/Styleclick also took a $14.3 million one-time charge, primarily related to contract terminations (see below), of which $1.7 million is excluded from Adjusted EBITDA.

ECS and Styleclick have worked together to provide end-to-end e-commerce solutions to service ECS's third-party clients, including online store design, development, merchandising and marketing. During 2002, ECS accounted for substantially all of Styleclick's revenue. In March 2003, ECS reached mutual agreement with its last remaining client regarding the termination of their relationship and as a result intends to wind down its operations prompty following a transition period that is anticipated to continue until no later than June 2003. As previously disclosed by Styleclick, ECS has notified Styleclick of such matters. Throughout 2002, Styleclick continued to incur significant net losses from continuing operations and had a net capital deficiency that raised substantial doubt about its ability to continue as a going concern. As previously disclosed, Styleclick has retained an investment-banking firm to assist it in reviewing strategic alternatives including but not limited to mergers, acquisitions or a possible sale of Styleclick.

Restructuring Charges

Restructuring charges were $35.3 million impacting Adjusted EBITDA and $39.1 million not impacting Adjusted EBITDA in 2002 and $8.2 million impacting Adjusted EBITDA and $6.2 million not impacting Adjusted EBITDA in 2001. The 2002 amounts relate to various initiatives across business segments, including $15.1 million for ECS related to rationalizing the business due to poor operating results, $14.8 million for HSN-International related to the shut-down of HSN-Espanol, the Company's Spanish language electronic retailing operation, due to high costs of carriage and disappointing sales per home due to the fragmented market, $13.1 million for PRC related principally to the shut-down of three call centers, a subsidiary operation, and employee terminations due principally to the decline in the teleservicing market that resulted in excess capacity and $31.4 million related to HSE-Italy due to large losses incurred in this market and uncertainty as to the ability to turn-around operations. 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 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 various initiatives across business segments, including $10.6 million for Styleclick related to the restructuring of its operations including the closure of its website, FirstAuction.com, and costs related to closing its offices in Los Angeles due to the relocation of the business to Chicago, $2.9 million for PRC related to a reduction of workforce and capacity due principally to the decline in the teleservicing market that resulted in excess capacity and $0.9 million for Citysearch due to a change in the business model.

Depreciation and Amortization and Other Income (Expense)

Depreciation expense for 2002 compared 2001 increased $45.9 million due primarily to the Expedia transaction and capital improvements put in place since 2001. Amortization of intangibles, including goodwill, decreased $148.4 million due to the new accounting rules on goodwill, offset by increases in amortization of intangibles of $67.0 million resulting primarily from the Expedia transaction and the step-up in basis of HSN resulting from the VUE Transaction and the Holdco exchange.

The amount of amortization of intangibles in future periods could be greater, as 2002 amounts do not reflect additional amortization as a result of the Ticketmaster merger (see Note 1 in the Notes to Consolidated Financial Statements), which will result in additional amortization of intangibles for the step-up in basis. Although the assessment of intangibles is preliminary at this time, the Company estimates that the impact on amortization is approximately $30 million for 2003.

As of January 1, 2002, the Company adopted FAS 141/142, and recorded a write-down before tax and minority interest to PRC goodwill of $384 million, as well as a write-down before tax and minority interest to Citysearch of $115 million as a cumulative effect adjustment. The write-offs were determined by comparing the fair value of the businesses, using discounted cash flow analysis, and the implied value of goodwill and intangibles with the carrying amounts on the balance sheet. The write-offs primarily resulted from a decline in revenues - for PRC due to the overall decline in the market for teleservicing and for Citysearch due to restructuring of the business and a new model that reduced short term operating results. In the second quarter of 2002, the Company recorded an impairment in operating income related to PRC goodwill of $22.2 million, which was related to a contingent purchase price adjustment booked in the three months ended June 30, 2002.

Net interest income in 2002 was $67.8 million compared to expense of $19.2 million in 2001. The increase in interest income is due primarily to amounts earned on proceeds from the VUE Transaction in 2002, including $23.0 million of PIK interest on the Series A Preferred, $15.9 million of cash interest on the Series B Preferred, and interest earned on the $1.6 billion of cash proceeds.

In 2002 and 2001 the Company realized pre-tax losses of $123.6 million and $30.7 million, respectively, on equity losses in unconsolidated subsidiaries resulting primarily from HOT Networks. The equity losses for HOT Networks for 2002, before it was consolidated, were impacted by charges of $88.3 million, relating primarily to the impact of HOT Networks closing its Belgium and UK operations in the three months ended June 30, 2002 as well as due to a write-down of HSN's investment in China based on its current operating performance.

Income Taxes

USA's effective tax rate was higher than the statutory rate due to the impact on taxable income of consolidated book losses for which no tax deduction is obtained, including international losses, and book amortization of intangible assets not amortizable for income tax, including the effect of adopting SFAS 142.

Minority Interest

Minority interest primarily represents Universal's and Liberty's ownership interest in USANi LLC through May 7, 2002, Liberty's ownership interest in Holdco through June 27, 2002, the public's ownership in TMCS until January 31, 2001, the public's ownership in Ticketmaster from January 31, 2001, the public's ownership interest in Hotels.com since February 25, 2000, the public's ownership interest in Styleclick since July 27, 2000, the partners ownership interest in HSE-Germany since its

consolidation as of January 1, 2000, the public's ownership in Expedia since February 4, 2002 and certain minority ownerships in EUVÍA and Interval.

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 net income before cumulative effect of accounting change of the USA Entertainment Group and USAB for the year ended December 31, 2002 and 2001 were $28.8 million and $61.7 million, respectively.

During the three months ended March 31, 2001, the 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."

Year Ended December 31, 2001 vs. Year Ended December 31, 2000

In April 2000, the Company acquired Precision Response Corporation ("PRC"), a provider of outsourced customer care for both large corporations and high-growth internet-focused companies (the "PRC Transaction"). On July 27, 2000, USA and Styleclick.com Inc. ("Old Styleclick"), an enabler of e-commerce for manufacturers and retailers, completed the merger of Internet Shopping Network ("ISN") and Styleclick.com, forming a new company named Styleclick, Inc. ("Styleclick") (the "Styleclick Transaction"). The Styleclick Transaction, the PRC Transaction and the combination of Ticketmaster and TMCS resulted in increases in net revenues, operating costs and expenses, other income (expense), minority interest and income taxes. The following historical information is supplemented, where appropriate, with pro forma information. The unaudited pro forma information is presented below for illustrative purposes only and is not necessarily indicative of the results of operations that would have actually been reported had any of the transactions occurred as of January 1, 2000, nor are they necessarily indicative of future results of operations.

HSN-U.S.

Operating Results

Net revenues in 2001 increased by $125.6 million, or 8.2%, to $1.7 billion from $1.5 billion in 2000 due primarily to higher revenue from HSN.com of $86.5 million, increased continuity sales of $6.3 million and $35.9 million of revenue generated by the Improvements business, a specialty catalogue retailer purchased in 2001. Note that 2001 was impacted by the national tragedy of September 11th. HSN ceased its live programming commencing shortly after the attacks and aired live news programming from USA Cable's NWI during that time. For 2001, total units shipped domestically increased to 38.5 million units compared to 35.2 million units in 2000, while the on-air return rate decreased slightly to 19.6% from 19.9% in 2000. The average price point in 2001 was $47.63, compared to $47.82 in 2000. Cost related to revenues and other costs and expenses for 2001 increased by $132.1 million, or 10.2%, to $1.4 billion from $1.3 billion in 2000 due to higher fixed overhead costs for fulfillment, including costs incurred to build out its new California fulfillment facility (in 2002, the center is expected to reduce shipping times to west coast customers), which helped contribute, along with pricing incentives offered after September 11th, to a lower on-air gross margin of 32.4% as compared to 33.8% in the prior year. Other operating costs increased due to investments in alternative distribution channels and continuing technology investments in HSN.com as the business scales. Furthermore, HSN incurred higher selling and marketing costs, including programs to attract new customers, and costs related to the Improvements business. Adjusted EBITDA in 2001 decreased $4.6 million, to $232.2 million from $236.8 million in 2000, due to increased Adjusted EBITDA of HSN.com of $21.6 million, the continuity business of $1.5 million and $3.9 million of Adjusted

EBITDA generated by the Improvements business, offset partially by the impact of lower on-air sales, lower margins and higher operating costs. Adjusted EBITDA in 2001 excludes amortization of cable distribution fees of $41.6 million in 2001 and $36.3 million in 2000. Excluding one-time charges and benefits and the estimated impact of disengagement (discussed below), net revenues in 2001 increased to $1.7 billion from $1.5 billion in 2000 and Adjusted EBITDA increased $1.9 million, to $231.5 million from $229.6 million in 2000. One time charges and benefits include $1.2 million related to employee terminations in 2001 and one-time benefits of $6.3 million related to a favorable settlement of litigation relating to an HSN broadcast affiliation agreement and a cable affiliation agreement in 2000. See below for a discussion of disengagement.

Disengagement

As noted in the Company's previous filings, the majority of the USAB stations sold to Univision are located in the largest markets in the country and aired HSN on a 24-hour basis. As of January 2002, HSN switched its distribution in these markets directly to cable carriage. As a result, HSN lost approximately 12 million homes and accordingly, HSN's operating results will be affected. Fortunately, sales from broadcast only homes are much lower than sales from cable homes. As a result, HSN's losses attributable to disengagement are expected to be limited. The disengagement costs are excluded from Adjusted EBITDA. Approximately $4.1 of these costs were incurred in 2001. The Company has supplemented its discussion of HSN's results by including a comparison of 2001 to 2000, adjusted for the estimated impact of disengagement on revenues and Adjusted EBITDA. In September 2001, the New York market was disengaged. The estimated 2000 impact was lost revenue of

$6.2 million and lost Adjusted EBITDA of $0.9 million.

Ticketing Operations

Net revenues in 2001 increased by $61.1 million, or 11.8%, to $579.7 million from $518.6 million in 2000 due to an increase in the average per ticket convenience, order processing and delivery revenue of $6.11 in 2001 compared to $5.71 in 2000, an increase in total tickets sold of 86.7 million in 2001 compared to 83.0 million in 2000 and, to a lesser extent, the impact of the acquisition of ReserveAmerica in February 2001. The gross transaction value of tickets sold for the full year 2001 was $3.6 billion. The percentage of tickets sold online in 2001 was approximately 32.1% as compared to 24.5% in 2000. Following September 11th, the Company did experience reduced ticket sales, event postponements and event cancellations, primarily in the third quarter. Also, the Company experienced a decrease in sales of concession control systems in its movie ticketing business in 2001 compared to 2000 due to weak economic conditions as well as a decrease in phone upsell revenue during 2001. Cost related to revenues and other costs and expenses in 2001 increased by $54.2 million, or 12.9%, to $473.4 million from $419.2 million in 2000, resulting primarily from higher ticketing operations costs, including commission expenses, and higher administrative costs. Adjusted EBITDA in 2001 increased by $6.9 million, or 6.9%, to $106.2 million from $99.4 million in 2000, and was impacted somewhat by the lingering impact of September 11th, a decline in earnings in selected international markets, and lower sales of concession control systems. Adjusted EBITDA in 2001 excludes non-cash distribution and marketing expense of $0.4 million related to barter arrangements for distribution secured from third parties, for which USA Cable provides advertising. Excluding one-time items, Adjusted EBITDA in 2001 increased by $6.2 million, or 6.2%, to $106.2 million from $100.0 million in 2000. One time charges relate to transaction costs incurred related to the merger of Ticketmaster and TMCS and costs related to an executive termination, totaling $0.7 million in 2000.

Hotels.com

Net revenues in 2001 increased by $208.5 million, or 63.6%, to $536.5 million from $328.0 million in 2000, resulting from a 74% increase in room nights sold (to 4.2 million from 2.4 million), a significant expansion of affiliate marketing programs to over 23,800 web-based and call center marketing affiliates in 2001 from 16,200 in 2000, an increase in the number of hotels in existing cities as well as expansion into 81 new cities and the acquisition of TravelNow in February 2001. Note that sales were partially impacted by September 11th due to the high volume of cancellations after the attacks, but that the fourth quarter results rebounded despite the weakened economy and a challenging travel environment. Cost related to revenues and other costs and expenses in 2001 increased by $179.7 million, or 65.3%, to $455.0 million from $275.3 million in 2000 due primarily due to increased sales, including an increased percentage of revenue attributable to affiliates that earn commissions (sales from affiliate websites accounted for approximately 65.2% of the total revenues, as compared to approximately 54.0% in the comparable period), increased credit card fees, and increased staffing levels and systems to support increased operations, and higher marketing costs, partially offset by lower telephone and telephone operator costs due to the increase in Internet-related bookings. Gross profit margin in 2001 decreased slightly to 31.0% from 31.2% due to a slight decline in gross profit margin of Hotels.com's historical business offset partially by the acquisition of TravelNow, which has higher gross margins. The decline in margin for the historical business resulted from Hotels.com's decision to focus on increasing market share and the dollar amount of gross profit instead of gross profit margin. Adjusted EBITDA in 2001 increased by $28.8 million, or 54.7%, to $81.4 million from $52.6 million in 2000. Adjusted EBITDA for 2001 and 2000 excludes non-cash distribution and marketing expense of $16.5 million and $4.3 million, respectively, related to the amortization of stock-based warrants issued to affiliates in consideration of exclusive affiliate distribution and marketing agreements and $0.5 million related to cross-promotion advertising provided by USA Cable. Hotels.com expects that the amount of non-cash distribution and marketing expense could grow, as certain of the warrants are performance based, the value of which is determined at the time the performance criteria are met. As Hotels.com's stock price rises, the value of the warrants also increases.

PRC

Net revenues in 2001 increased by $86.2 million, or 40.6%, to $298.7 million from $212.5 million in 2000 primarily from the addition of new clients and expansion of certain existing relationships and the acquisition of new businesses, offset partially by a decrease in services provided to certain existing clients. Overall, PRC's business continued to be adversely affected by an economy-related slowdown in the outsourcing of consumer care programs, particularly in the telecom and financial services industries. Revenue in 2001 includes $7.1 million for services provided to other USA segments. Cost related to revenues and other costs and expenses in 2001 increased by $95.3 million, or 53.8%, to $272.6 million from $177.3 million in 2000, due primarily to increased operations and costs associated with obtaining new clients, including the costs of the businesses acquired in late 2000 and in 2001. Adjusted EBITDA in 2001 decreased by $9.1 million to $26.0 million from $35.2 million in 2000. Excluding one-time items, Adjusted EBITDA in 2001 decreased by $0.9 million to $34.3 million from $35.2 million in 2000. One-time charges relate to $8.3 million of restructuring costs for call center operations, employee terminations and benefits. Note that PRC was acquired by USA in April 2000. On a pro forma basis, 2001 revenues increased by $16.5 million and 2001 Adjusted EBITDA, excluding one-time items, decreased by $10.3 million.

Match.com

Net revenues in 2001 increased by $20.2 million, or 69.1%, to $49.3 million compared to $29.1 million in 2000 due to increased subscription revenue, as the personals operations had a 49% increase in the average number of personals subscriptions in 2001 compared to 2000 and a subscription

price increase effective November 2000. Cost related to revenues and other costs and expenses in 2001 increased by $9.8 million to $32.7 million in 2001 from $22.9 million primarily from a new broadcast media campaign and higher operating costs to support the increased sales volumes and increased fees paid to distribution partners. Adjusted EBITDA in 2001 increased by $10.3 million to $16.5 million from $6.2 million in 2000. Adjusted EBITDA in 2001 excludes $5.9 million of non-cash distribution and marketing expense related to advertising provided by USA Cable, $2.5 million for cross promotion advertising and $3.4 million related to barter arrangements for distribution arrangements secured from unaffiliated third parties.

HSN-International and Other

HSN-International consisted primarily of HSE-Germany and HSN-Espanol, which operated Spanish language electronic retailing operations serving customers primarily in the United States, Puerto Rico and Mexico. HSE-Germany increased sales $22.9 million, or 10.2%, in 2001 to $247.3 million compared to $224.4 million in 2000. The Euro did decline in value as compared to the U.S. dollar during the year. Using a constant exchange rate (1999 chosen for all periods presented), HSE-Germany increased sales $34.3 million, or 13.1%, in 2001 to $296.0 million compared to $261.7 million in 2000. Sales trends were adversely impacted by the conversion to a new order management system, which delayed certain shipments. HSE-Germany recognizes revenue upon shipment. HSN-Espanol had slightly increased revenues of $4.1 million, to $23.4 million in 2001 compared to $19.3 million in 2000, resulting from increased sales in existing markets and expansion into Mexico. Costs increased primarily due to higher sales volume, although gross margins declined. HSE-Germany's margins declined to 33.8% from 36.6% in 2000, due to operating challenges of the conversion to the new order management system and increased investments in adding an additional 4 live hours of programming and increased marketing expenses for new product lines. Margins at HSN-Espanol declined to 17.5% in 2001 from 25.7%, due in part to costs of expansion into new territories. Adjusted EBITDA for electronic retailing in HSE-Germany decreased $19.5 million in 2001, to $4.8 million from $24.3 million in 2000, due to lower margins and higher operating expenses described above. Adjusted EBITDA loss for HSN-Espanol and International administration, widened to $29.7 million in 2001 from $11.1 million, due to higher costs related to expansion efforts and increased live broadcasting hours. Excluding one-time items, Adjusted EBITDA for electronic retailing in HSE-Germany decreased $17.9 million in 2001, to $6.4 million from $24.3 million in 2000. One-time items include non-recurring expenses of $1.6 million related to employee terminations in 2001.

Citysearch and Related

Net revenues in 2001 decreased by $4.8 million to $46.1 million compared to $50.9 million in 2000 due primarily to decreased advertising revenue related to the city guides business. Cost related to revenues and other costs and expenses (including Ticketmaster corporate expenses) in 2001 decreased by $26.9 million to $90.5 million from $117.4 million in 2000. The decrease in revenues and costs reflect Citysearch's initiatives to reduce operating costs and focus on higher margin products. In January 2002, Citysearch announced a further restructuring of its operations in pursuit of its strategy to achieve breakeven financial performance in 2003 (excluding Ticketmaster corporate expenses). Adjusted EBITDA loss in 2001 narrowed by $21.9 million to $44.4 million from $66.3 million in 2000. Adjusted EBITDA in 2001 excludes $11.4 million of non-cash distribution and marketing expense related to advertising provided by USA Cable, consisting of $9.1 million for cross promotion advertising and $2.3 million related to barter arrangements for distribution arrangements secured from unaffiliated third parties and excludes $1.0 million of one-time costs related to employee terminations. Excluding one-time items, Adjusted EBITDA loss in 2001 narrowed by $20.4 million to $43.4 million from $63.8 million in 2000. One-time items include $1.0 million of non-recurring costs related to employee

terminations in 2001 and $2.5 million of non-recurring costs related to the merger of Ticketmaster and TMCS in 2000.

USA Electronic Commerce Solutions ("ECS")/Styleclick

Net revenues in 2001 decreased by $12.4 million to $34.2 million compared to $46.6 million in 2000 due primarily to decreases in revenue of Styleclick caused by the shut-down of the First Jewelry and FirstAuction.com websites, offset partially by increases in revenue for the transactional sites that ECS manages. Cost related to revenues and other costs and expenses in 2001 decreased by $14.2 million, due primarily to initiatives to reduce operating costs of Styleclick. Adjusted EBITDA loss in 2001 narrowed by $1.8 million to $58.4 million in 2001 from $60.2 million in 2000. Excluding one-time items, Adjusted EBITDA loss in 2001 narrowed by $6.6 million to $53.6 million in 2001 from $60.2 million in 2000. One-time items include $4.8 million of non-recurring charges related to consolidating Styleclick's operations in Chicago and the shutdown of the FirstAuction.com website, and $5.0 million related to the write-down of a commitment from USA to provide media time recorded in 2001. Regarding the media time write-down, the commitment for the time expires on December 31, 2002 and based on current projections, Styleclick does not believe it is likely to use the time during this period. Note that Styleclick was acquired by USA in July 2000. On a pro forma basis, 2001 revenues for the segment decreased by $14.3 million and 2001 Adjusted EBITDA loss, excluding one-time items, narrowed by $17.6 million. In 2001, Styleclick began to focus on e-commerce services and technology while eliminating its online retail business. During this transition, Styleclick continued to incur significant net losses from operations that raise substantial doubt about Styleclick's ability to continue as a going concern.

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 net income before cumulative effect of accounting change of the USA Entertainment Group and USAB for the year ended December 31, 2001 and 2000 were $61.7 million and $24.4 million, respectively.

During the three months ended March 31, 2001, the 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."

Depreciation and Amortization, Non-Cash Compensation and Other Income (Expense)

Depreciation, amortization of intangibles and goodwill including goodwill impairment, decreased by $139.9 million primarily due to the impact of a $145.6 million write-off of goodwill on Styleclick in 2000. Amortization of non-cash compensation expense relates to non-cash charges for the Company's bonus stock purchase program, restricted stock awards, and stock option grants.

For the year ended December 31, 2001, net interest expense increased by $11.8 million, compared to 2000 primarily due to lower interest earned due to lower rates.

In the years ended December 31, 2001 and 2000, the Company realized pre-tax losses of $30.7 million and $7.9 million, respectively, on equity losses in unconsolidated subsidiaries resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2001 and 2000, the Company also realized pre-tax losses of $18.7 million and $46.1 million, respectively, related to the write-off of equity investments to fair value. The write-off in equity investments was based upon management's estimate of the current value of the investments, considering the current business

environment, financing opportunities of the investees, anticipated business plans and other factors. Note that the majority of investments were in Internet related companies.

In 2001 the Company recorded a gain of $517.8 million, net of taxes of $377.4 million related to the sale of all of the capital stock of certain USAB subsidiaries that own 13 full-power television stations and minority interests in four additional full-power stations to Univision. Results of operations for the broadcasting stations for 2000 are recorded as discontinued operations. The 2000 net loss for USAB was $59.4 million, net of tax benefit of $21.3 million.

In 2000, the Company realized a pre-tax gain of $104.6 million based upon the exchange of 25% of ISN for 75% of Old Styleclick in the Styleclick Transaction. Also, the Company realized a pre-tax gain of $3.7 million related to the initial public offering of its subsidiary, Hotels.com.

Income Taxes

USA's effective tax rate for the year ended December 31, 2001 was higher than the statutory rate due to the impact on taxable income of non-deductible goodwill, consolidated book losses not consolidated into taxable income and state income taxes.

Minority Interest

Minority interest primarily represents Universal's and Liberty's ownership interest in USANi LLC, Liberty's ownership interest in Holdco, the public's ownership in TMCS until January 31, 2001, the public's ownership in Ticketmaster from January 31, 2001, the public's ownership interest in Hotels.com since February 25, 2000,the public's ownership interest in Styleclick since July 27, 2000 and the partners ownership interest in HSE-Germany since its consolidation as of January 1, 2000.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $741.6 million for 2002 compared to $298.3 million for 2001. These cash proceeds and available cash were used to pay for acquisitions and deal costs, net of acquired cash, of $560.5 million, including $48.1 million for Expedia's purchase of Classic Vacations in March 2002, $51.8 million to acquire TVTS in May 2002, and $541.4 million, less $16.2 million in cash acquired, to acquire Interval in September 2002, of which $2.9 million was paid in January 2003, to make capital expenditures of $165.6 million, and to make mandatory tax distribution payments to the LLC partners of $154.1 million.

Expedia's and Hotels.com's working capital cash flows from the merchant business contibuted to the increase in cash provided by operating activities. In the merchant business, Expedia and Hotels.com receive from customers on hotel and air bookings before the stay or flight has occurred, whereas the payment to the suppliers related to the bookings is not made until approximately one week after booking for air travel and, for all other merchant bookings, after the customer's use and subsequent billing from the supplier. Therefore, especially for the hotel business, which is the majority of merchant bookings, there is a signficant lag period from the receipt of the cash from the customers to the payment to the suppliers.

In connection with the VUE Transaction, USA and its subsidiaries received the following at closing in May 2002: (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 Vivendi at its then face value with a maximum of approximately 56.6 million USA common shares,

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provided that Vivendi 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 had been exchangeable into USA common shares including USANi LLC interests obtained from Liberty in connection with the transaction.

In January 2002, the Company received the final proceeds of $589.6 million from the sale of the capital stock, in August 2001, of certain USAB subsidiaries that own 13 full-power television stations and minority interests in four additional full-power stations.

On December 11, 2002, USA issued $750.0 million of 7.0% Senior Notes resulting in cash proceeds of $744.0 million. These Notes are due January 15, 2013 with interest payable January 15 and July 15, commencing on July 15, 2003. USANi LLC guarantees these Notes. The USANi LLC guaranty will terminate whenever the $6^3/_4$% Senior Notes due 2005 co-issued by USA and USANi LLC cease to be outstanding or USANi LLC's obligations under such $6^3/_4$% Senior Notes and the related indenture are discharged or defeased pursuant to the terms thereof.

The $1.6 billion credit facility, including the $600.0 million revolving credit facility, was terminated by USA in connection with the VUE Transaction and all guarantees were released under the credit agreement. As a result of the termination of the credit facility, all guarantees of USA's and USANi's $500.0 million aggregate principal amount of $6^3/_4$% Senior Notes due 2005 were also released. As of December 31, 2002, the Company repurchased $47.0 million face value of its $6^3/_4$% Senior Notes due 2005 and through February 15, 2003, the Company purchased an additional $23.3 million face value of these notes. In addition, USA may purchase from time to time, in the open market or in privately negotiated transactions, additional $6^3/_4$% Senior Notes subject to market conditions, pricing and other factors.

Under the USANi LLC Operating Agreement, USANi LLC was obligated to make a distribution to each of the LLC members in an amount equal to each member's share of USANi LLC's taxable income at a specified tax rate. The final distribution was made in 2002 in the amount of $154.1 million relating to 2001 and through May 2002, as USA now owns 100% of USANi LLC. In 2001, USANi LLC paid $17.4 million related to the year ended December 31, 2000, and in 2000, USANi LLC paid $68.1 million related to the year ended December 31, 1999, to Universal and Liberty.

In connection with the 2000 acquisition of Universal's domestic film distribution and development business previously operated by PFE and PFE's domestic video and specialty video businesses transaction, USA advanced $200.0 million to Universal in 2000 pursuant to an eight year, full recourse, interest-bearing note in connection with a distribution agreement, under which USA had agreed to distribute, in the United States and Canada, certain Polygram Filmed Entertainment, Inc. theatrical films that were not acquired in the transaction. The advance was repaid as revenues were received under the distribution agreement. Upon the close of the VUE Transaction, the balance was repaid in full.

On February 20, 2002, USA acquired 1,873,630 shares of Expedia common stock for approximately $47.0 million. Expedia used the proceeds to acquire Classic Custom Vacations.

On May 31, 2002, USA completed the redemption of the Savoy Debentures. The total amount for the redemption was $38.3 million.

Through December 31, 2002, the Company has contributed approximately $169.5 million to HOT Networks. All but $19.6 million of this funding has been written off via equity losses. In the third quarter of 2002, HSN acquired its partners' interest in HOT Networks. See below for further discussion of HOT Networks funding obligations.

As of December 31, 2002, the Company has $4.0 billion of cash, cash equivalents, restricted cash and marketable securities on hand, including $105.5 million in funds representing amounts equal to the face value of tickets sold by Ticketmaster on behalf of its clients.

In relation to the Expedia transaction, the Company issued approximately 13.1 million preferred shares bearing interest at 1.99% per annum, payable quarterly in cash or stock at USA's option. If USA elects to pay cash, the amount is approximately $13.1 million on an annual basis. In 2002 the Company paid cash dividends of $10.2 million. The next dividend was paid February 15, 2003, and USA paid approximately $3.3 million in cash. USA's wholly-owned subsidiaries have no material restrictions on their ability to transfer amounts to fund USA's operations.

In the third quarter of 2002, USA changed its primary form of equity-based incentive compensation from stock options to restricted stock units. The Company intends to issue restricted stock units that will vest in future periods instead of stock options although the Company's public subsidiaries may issue employee stock options in 2003 as they complete the transition to 100% restricted stock. For restricted stock units issued, the accounting charge will be measured at the grant date and amortized ratably as non-cash compensation over the vesting term.

On March 19, 2003, USA announced that its Board of Directors has authorized the repurchase of up to 30 million shares of USA common stock. USA may purchase shares from time to time on the open market or through private transactions, depending on market conditions, share price and other factors.

On January 3, 2003, the board of directors of Hotels.com authorized the repurchase of up to $100 million of their class A common stock. The repurchased shares will be available for issuance upon exercise of outstanding options. Between January 7, 2003 and January 15, 2003, Hotels.com repurchased approximately 1.55 million shares for an aggregate cost of approximately $73.5 million.

In February 2003, Expedia announced the authorization of a plan to repurchase up to $200.0 million of its common stock through a stock repurchase program. Pursuant to this program as of February 28, 2003, Expedia had repurchased approximately 816,000 shares of its common stock for $25.0 million.

USA anticipates that it will need to invest working capital towards the development and expansion of its overall operations. The Company may make a significant number of acquisitions, which could result in the reduction of its cash balance or the incurrence of debt. Furthermore, future capital expenditures may be higher than current amounts over the next several years.

In management's opinion, available cash, internally generated funds and available borrowings will provide sufficient capital resources to meet USA's foreseeable needs.

Funding obligations of HOT Networks for EUVÍA

HOT Networks holds a 48.6% limited partnership interest in EUVÍA, a German limited partnership, as well as pooling arrangements that allow for control of EUVÍA. EUVÍA, through certain subsidiaries, operates two businesses, "Neun Live TV," a game show oriented TV channel, and 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 Euro 179 million, with the funding obligations terminating if EUVÍA remains profitable for two consecutive fiscal years. Through December 31, 2002, HOT Networks funded EUVÍA with approximately Euro 59.1 million. HOT Networks expects that no additional funding will 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 Euro 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.

Funding Obligations of TV Travel Shop

A subsidiary of TV Travel Group Limited, the company that carries out our TV Travel Shop business, currently has a 75% interest in TV Travel Shop Germany GmbH & Co. KG, a Germany-based TV travel shopping joint venture with TUI GROUP GmbH. Up to December 31, 2002, TV Travel Group Limited, through a subsidiary, has contributed approximately Euro 28.4 million to the joint venture. In connection with a transaction agreement signed October 30, 2002, TV Travel Group Limited transfered a 25.1% portion of its interest in TV Travel Shop Germany GmbH & Co. KG to TUI GROUP GmbH with economic effect as of October 1, 2002, with TUI GROUP GmbH generally assuming funding obligations to the joint venture going forward up to an amount of Euro 19.5 million. In February 2003, the Federal Cartel office approved the transaction.

Recent Ratings Agency Actions

On July 30, 2002, Standard & Poor's announced that it lowered its ratings, including its corporate rating, on USA to triple-"B"-minus from triple-"B", reflecting the sale of the Company's entertainment business. At the same time Standard & Poor's announced it had removed all of USA's ratings from CreditWatch, and that the current outlook is stable. USA believes that the ratings actions has no bearing on its operations or liquidity, and does not impact USA's ability to raise financing if necessary. On December 6, 2002, Moody's reaffirmed its rating of USA's corporate rating of BAA3 and rated USA's outlook stable, when it rated USA's 7.00% Senior Notes due January 15, 2013. On December 9, 2002, Standard & Poor's rating services assigned its' "BBB-" rating to the offering. At that same time, Standard & Poor's affirmed its' "BBB-" Corporate credit rating for USA and that the current outlook was stable. As noted above, USA has approximately $4.0 billion in cash, cash equivalents and marketable securities on a consolidated basis as of December 31, 2002.

Hotels.com and Expedia Cooperation

As previously disclosed, Hotels.com and Expedia, USA being the controlling shareholder of both companies, are actively exploring areas where they might work together in a way that would benefit all their customers and stockholders. Although there continue to be many areas of their businesses where the companies can best achieve their goals through separate strategies and practices, there have been instances where, fully consistent with their existing contractual agreements, they have worked cooperatively, and we anticipate that they will continue to explore such possibilities in the future.

Non-GAAP Financial Measures

The SEC recently issued guidance regarding the use of non-GAAP financial measures, which are defined as a numerical measures of a registrant's historical or future financial performance, financial position or cash flows that:

- exclude amounts, or are subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP; or,

- include amounts, or are subject to adjustments that have the effect of including amounts, that are excluded in the most directly comparable measure calculated and presented in accordance with GAAP.

USA executive management believes that certain non-GAAP measures, including EBITDA, EBITA, Adjusted Net Income, Adjusted EPS and Free Cash Flow, are helpful, when presented in conjunction with the comparable GAAP measures. The non-GAAP measures are not meant to replace or supercede the GAAP measures, but rather to supplement the information to present the readers of the financial statements the same information as management considers in assessing the results of operations and performance of the business units.

When presenting non-GAAP financial measures the Company will present a reconciliation of the most directly comparable GAAP measures. These non-GAAP measures are consistent with how management views the results of operations in assessing performance. The final rules on these measures were just released in January, so we, like the rest of the world, are in the process of interpreting the rules. While we believe that the measures we present comply with the rules, we will continue to monitor any developments in their interpretation. Accordingly, we can give no assurance that we will be able to provide these or comparable measures in future filings.

Non-GAAP financial measures fall into two categories (1) measures of performance that are different from that presented in the GAAP financial statements (for example, net income versus Adjusted Net Income), or (2) measures of liquidity different from cash flow or cash flow from operations computed in accordance with GAAP.

Performance Based Measurements

Definitions of Measurements that USA will Use

Adjusted EBITA (Earnings before Interest, Taxes, Amortization of Intangibles, Non-cash compensation and non-cash marketing, other income and expense, and non-recurring items, including restructuring reserves)

Adjusted Net Income (Amounts that have been, or ultimately will be, settled in cash and the measure will be computed as net income plus (1) amortization of intangibles, non-cash distribution and marketing expense and non-cash compensation expense, (2) equity gains/losses on the VUE partnership interest, and (3) non-recurring or unusual items, including the cumulative effect of accounting changes, that have not or are not reasonably likely to recur within two years, all on an after-tax basis)

Adjusted EPS (Adjusted Net Income divided by fully diluted shares outstanding, including restricted stock issued without using the treasury method convention, as the denominator)

Going forward, Adjusted EBITA, Adjusted Net Income and Adjusted EPS are the primary measures of USA executive management to review the operating performance of the business units. In the past, the Company also used Adjusted EBITDA to measure performance. As support, these measures are prominently displayed in USA's 2003 budget presentation; the

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actual results received from the business units, and investor presentations by USA executive management. Furthermore, incentive compensation is directly linked to achieving Adjusted EBITA and Adjusted Net Income targets. Previously, Adjusted EBITDA, as defined by USA, was the primary measure of performance reviewed by management. EBITA has replaced EBITDA primarily due to the change in the business, from media and entertainment (which is generally measured based on EBITDA results). The Company believes that depreciation of capital expenditures, especially capitalized technology spending, is an important measure of performance. It is important to note that USA does not adjust for non-cash items because they are non-recurring, but rather because USA management excludes these items in reviewing the operating performance of the business units and the overall results of USA.

Discussion of Non-Cash Items

Non-cash distribution and marketing refers to arrangements whereby the Company has secured distribution for its products and services in exchange for providing advertising and, in some cases, warrants to purchase stock in Hotels.com. Sufficient advertising to satisfy the existing obligations has been secured pursuant to an agreement with Universal TV (formerly USA Cable) related to the USA transaction with Vivendi Universal Entertainment (the "VUE Transaction"). The warrants were issued predominately at the time of Hotels.com initial public offering. Current arrangements do not provide for cash payments to secure distribution.

To date, non-cash compensation has been a relatively small amount, but the Company intends to account for stock based compensation in accordance with FASB Statement No. 123, and expense the fair value of the equity instruments over their vesting terms. Going forward, the Company intends to issue restricted stock and the accounting charge will be measured at the grant date and amortized ratably as non-cash compensation over the vesting term. The Company anticipates that the expense related to restricted stock will increase over time. Management views the true cost of restricted stock as the resulting dilution to common shareholders rather than the estimated fair value of the instrument that is used to record the expense. Management may issue some options in the near term as it completes its shift to restricted stock. Stock option compensation is included in amortization of non-cash compensation. Consistent with management's view that the true cost is the dilution, for purposes of calculating Adjusted Net Income Per Share, all restricted shares are treated as outstanding for calculating the weighted average shares outstanding, and the treasury method convention is not used to reduce the shares outstanding.

Management views its acquisitions on a long-term basis. The Company has historically been acquisitive, and, as a result, large balances of intangible assets have been estimated and recorded over time. Management evaluates acquisitions based on the total purchase price of the assets purchased versus the cash flows and income before non-cash expenses that the businesses generate. Management does not consider the possible intangibles that may result from the valuation of the fair value of assets and liabilities in making its acquisition decision, and thus the resulting amortization of intangibles is not relevant to management in evaluating the results of operations on an ongoing basis. The amounts created are indicative of accumulated intangibles that arose over time, in some instances many years, in establishing the business, such as contractual relationships with suppliers and distributors and customer relationship, and are not in lieu of future cash costs that may be incurred.

Non-Recurring Items

The new rules offer guidelines for the treatment of non-recurring items, prohibiting adjustments identified as non-recurring, infrequent or unusual when (1) the nature of the charge or gain is such that it is reasonably likely to recur within two years, or (2) there was a similar charge or gain within the prior two years. USA will review items identified as non-recurring in future periods to ensure they comply with this guidance.

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Reconciliation of Non-GAAP Measures to GAAP Measures and Presentation

When presenting non-GAAP financial measures, the most directly comparable GAAP measure will be presented in equal or greater prominence. In addition, USA will provide a reconciliation of each of the non-GAAP measures to the GAAP measures.

USA believes that the most comparable GAAP measures are as follows:

Non-GAAP Measures	GAAP Measures
Adjusted EBITDA	Operating Income
Adjusted EBITA	Operating Income
Adjusted Net Income	Net Income available to common shareholders
Adjusted EPS	Diluted EPS

Liquidity Measurements

Definition of Measurement that USA will Use

Free Cash Flow (GAAP cash flow from operations less capital expenditures, payments of preferred dividends and funding to unconsolidated subsidiaries for operating purposes)

Free Cash Flow ("FCF") is the primary measure of USA executive management to review the ability of the business units to convert operating performance into cash, which can then be used to support reinvestments in current operations, acquisitions, or other strategic purposes. This measure is prominently displayed in USA's 2003 budget presentation; the actual results received from the business units, and investor presentations by USA executive management.

Discussion of Elements of Computation

Capital expenditures, taken directly from the cash flow statement, are utilized in the computation since they represent a significant portion of the Company's cash expenditures and are a direct reinvestment in the business units to increase future performance. The dividend on the preferred shares represents a financing decision by USA, so the dividend payments are treated similar to interest payments, which are included in operating cash flow. Funding to unconsolidated subsidiaries for operating purposes historically related to funding to HOT Networks, as each partner in the venture funded losses. Since HOT Networks was not consolidated, the funding was not reflected in operating cash flows. It is not expected that USA will continue to incur such costs, as HOT Networks is now consolidated and the Company's other joint ventures do not require significant cash funding.

Reconciliation of Non-GAAP Measures to GAAP Measures

USA believes that the most comparable GAAP measure is Cash Flow from Operations, which is the starting point of FCF.

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Contractual Obligations and Commercial Commitments

Contractual Obligations	Payments Due by Period — Total	0-3 years	4-5 years	After 5 years
	(In Thousands)			
Long Term Debt	$ 1,234,529	$ 23,718	$ 453,451	$ 757,360
Capital Lease Obligations	2,594	2,594		
Operating Leases	431,764	228,342	66,630	136,792
Total Contractual Cash Obligations	$ 1,668,887	$ 254,654	$ 520,081	$ 894,152

Other Commercial Commitments*	Total Amounts Committed	Amount of Commitment Expiration Per Period — 0-3 years
	(In Thousands)	
Letters of Credit	$ 38,947	$ 38,947
Guarantees	30,142	30,142
Total Commercial Commitments	$ 69,089	$ 69,089

* Commercial commitments are funding commitments that could potentially require registrant performance in the event of demands by third parties or contingent events, such as under lines of credit extended or under guarantees of debt.

Critical Accounting Policies

In connection with the issuance of Securities and Exchange Commission FR-60, the following disclosure is provided to supplement USA's accounting policies in regard to significant areas of judgment. 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. Because of the size of the financial statement elements they relate to, some of our accounting policies and estimates have a more significant impact on our financial statements than others:

How we assess the recoverability of the carrying value of long-lived assets is disclosed in Note 2. If circumstances suggest that long-lived assets may be impaired, and a review indicates that the carrying value will not be recoverable, as determined based on the projected undiscounted future cash flows, the carrying value is reduced to its estimated fair value. The determination of cash flows is based upon assumptions and forecasts that may not occur. As of December 31, 2002, the balance sheet includes $7.3 billion of goodwill and intangible assets, net, $431.5 million of fixed assets, net, and $167.2 million of cable distribution fees, net. As previously discussed in USA's Form 10-Q for the quarter ended March 31, 2002, USA recorded a write-off before tax and minority interest of $115 million and $384 million related to the Citysearch and PRC businesses, respectively, as a cumulative effect of accounting change. Although Citysearch and PRC are expected to generate positive cash flows in the future, due to cash flow discounting techniques to estimate fair value, the future estimated discounted cash flows did not support current carrying values at the time of the evaluation on January 1, 2002. USA updated its analysis of goodwill as of October 1, 2002, and no further impairment was recorded. It also assessed other long-lived assets at this time, and no impairment was recorded.

Our revenue recognition for HSN is described in Note 2. As noted, sales are reduced by incentive discounts and sales returns to arrive at net sales. HSN's sales policy allows merchandise to be returned at the customer's discretion within 30 days of the date of delivery and allowances for returned merchandise and other adjustments are provided based upon past experience. The estimated return percentage for 2002 and 2001 of 18.6% and 18.9%, respectively, was arrived at based upon empirical evidence of actual returns, and the percentage was applied against sales to arrive at net sales. Actual levels of product returned may vary from these estimates. The Company believes that actual returns on HSN product sales have not materially varied from estimates in any of the financial statement periods presented, although its systems only allowed HSN to track such information beginning in 2001.

Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 6, and reflect management's assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and the probability of realization. Actual income taxes could vary from these estimates due to future changes in income tax law or based upon review of our tax returns by the IRS, as well as operating results of the Company that vary significantly from budgets.

Merchandise inventories are valued at the lower of cost or market, cost being determined using the first-in, first-out method. Market is determined on the basis of net realizable value, giving consideration to obsolescence and other factors. Net realizable value is estimated by management based upon historical sales data, the age of inventory, the quantity of goods on hand and the ability to return merchandise to vendors. The actual net realizable value may vary from estimates due to changes in customer tastes or viewing habits, or errors in judgment made by merchandising personnel when ordering new products.

The Company has entered into various arrangements that contain multiple elements, such as arrangements providing for distribution and other services to be provided by the third party to multiple USA business segments. Multi-element arrangements require that management assess the relative fair value of the elements based upon revenue forecasts and other factors. The actual fair value of the various services received may differ from these estimates.

The Company has entered into various non-monetary transactions, principally related to barter advertising for goods and services which are recorded at the estimated fair value of the products or services received or given in accordance with the provisions of the Emerging Issues Task Force Issue No. 99-17, "Accounting for Advertising Barter Transactions." The actual fair value of the products and services received may differ from these estimates.

The Company accounts for stock-based compensation issued to employees in accordance with APB 25, "Accounting for Stock Issued to Employees." In cases where exercise prices are less than fair value as of the grant date, compensation is recognized over the vesting period. For stock-based compensation issued to non-employees, the Company accounts for the grants in accordance with FASB Statement No. 123, "Accounting for Stock Based Compensation."

As disclosed in the notes to financial statements, the Company estimated the fair value of options issued at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2002, 2001 and 2000: risk-free interest rates of 2.78% in 2002 and 5.0% in 2001 and 2000; a volatility factor of 50%, 51% and 50%, respectively; and a weighted average expected life of the options of five years. The impact on compensation expense for the year ended December 31, 2002, assuming a 1% increase in the risk-free interest rate, a 10% increase in the volatility factor, and a one year increase in the weighted average expected life of the options would be $8.1 million, $14.8 million, and $12.8 million, respectively.

The Company also issued restricted stock. 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.

The prevailing accounting guidance applied by Hotels.com and Expedia with respect to the presentation of revenue on a gross versus a net basis is contained in Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", as later clarified by Emerging Issues Task Force No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent (EITF 99-19)." The consensus of this literature is that the presentation of revenue as "the gross amount billed to a customer because it has earned revenue from the sale of goods or services or the net amount retained (that is, the amount billed to a customer less the amount paid to a supplier) because it has earned a commission or fee" is a matter of judgment that depends on the relevant facts and circumstances. If the conclusion drawn is that the company performs as an agent or a broker without assuming the risks and rewards of ownership of goods, revenue should be reported on a net basis. In making an evaluation of this issue, some of the factors that should be considered are:

- If the company is the primary obligor in the arrangement strong indicator;

- If the company has general inventory risk (before customer order is placed or upon customer return) strong indicator; and

- If the company has latitude in establishing price.

EITF 99-19 clearly indicates that the evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. The positions taken by Hotels.com and Expedia reflect their interpretation of their respective fact patterns as well as their qualitative weighing of the indicators outlined in EITF 99-19. See Note 2 Summary of Significant Accounting Policies, Revenues in the notes to consolidated financial statements for discussion of the factors considered by Hotels.com and Expedia in arriving at their conclusions.

For comparison purposes, in order to provide the reader with a more complete discussion on this topic, we present pro forma information under the assumption of both companies presenting revenue on a net basis and both companies presenting revenue on a gross basis, including the pro forma impact on the USA consolidated revenues and the separate segment revenues of Hotels.com and Expedia.

Assuming that both companies presented merchant revenue on a net basis, USA's pro forma net revenues for the years ended December 31, 2002 and 2001 would have been $4.0 billion and $3.1 billion, respectively. Assuming that both companies presented revenue on a gross basis, USA's pro forma net revenues for the years ended December 31, 2002 and 2001 would have been $5.3 billion and $4.2 billion, respectively.

For Hotels.com, assuming that it presented merchant revenue on a net basis, Hotels.com pro forma net revenues for the years ended December 31, 2002 and 2001 would have been $287.7 million and $166.2 million, respectively.

For Expedia, assuming that it presented merchant revenue on a gross basis, Expedia's pro forma net revenues for the years ended December 31, 2002 and 2001 would have been $1.2 billion and $735.9 million, respectively.

Some states and localities impose a transient occupancy or accommodation tax, or a form of sales tax, on the use or occupancy of hotel accommodations. Hotels operators generally collect and remit these taxes to the various tax authorities. Consistent with this practice, when a customer books a room through one of the Company's travel services, the hotel charges taxes based on the room rate paid to the hotel and the Company recovers an equivalent amount from the customer. The Company does not collect or remit taxes on the portion of the customer payment it retains, and some jurisdictions have questioned the Company's practice in this regard. While the applicable tax provisions vary among the jurisdictions, the Company believes it generally has sound arguments as to why it is not required to collect and remit such taxes. The Company is engaged in discussions with tax authorities in various jurisdictions to resolve this issue, but the ultimate resolution in any particular jurisdiction cannot be determined at this time. The Company does not believe, however, that the amount of liability of the Company on account of this issue, if any, will have a material adverse effect on its past or future financial results.

The Company has established a reserve with respect to potential occupancy tax liability for prior periods, consistent with applicable accounting principles and in light of all current facts and circumstances. The Company's reserves represent its best estimate of the contingent liability related to occupancy tax in respect of prior periods. A variety of factors could affect the amount of the liability (both past and future), which factors include, but are not limited to, the process of moving Expedia and Hotels.com toward common business practices, increasing cooperation between them as a result of the acquisition by the Company of the publicly-held shares of Expedia and Hotels.com in 2003 (including whether to pursue joint resolutions with one or more jurisdictions), the number of, and amount of revenue represented by, jurisdictions that ultimately assert a claim and prevail in assessing such additional tax or negotiate a settlement, changes in statutes and the timing of all of the foregoing. The Company notes that there are more than 7,000 taxing jurisdictions, and it is not feasible to analyze the statutes, regulations and judicial and administrative rulings in every jurisdiction. Rather, the Company has obtained the advice of state and local tax experts with respect to tax laws of certain states and local jurisdictions that represent a large portion of the Company's hotel revenue. In addition, the Company continues to engage in a dialog with and receive feedback from certain state and local tax authorities. The Company will continue to monitor the issue closely and provide additional disclosure, as well as adjust the level of reserves, as developments warrant.

Seasonality

USA's businesses are subject to the effects of seasonality.

USA believes seasonality impacts its Electronic Retailing segment but not to the same extent it impacts the retail industry in general.

Ticketing operations revenues are impacted by fluctuations in the availability of events for sale to the public, which vary depending upon scheduling by the client. The second quarter of the year generally experiences the most ticket on-sales for events.

Hotels.com's and Expedia's revenues are influenced by the seasonal nature of holiday travel in the markets it serves, and has historically peaked in the fall. As the businesses expand into new markets, the impact of seasonality is expected to lessen.

TVTS revenues are influenced by the seasonal nature of package travel, with the first and third quarters generally experiencing the strongest sales and the second and the fourth quarter experiencing weaker sales.

Interval's revenues from existing members are influenced by the seasonal nature of planned family travel with the first quarter generally experiencing the strongest sales and the fourth quarter generally experiencing weaker sales. Interval's new member revenues are generally strongest in the third quarter influenced by the seasonal nature of timeshare sales by its developer clients.

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
InterActiveCorp:

We have audited the accompanying consolidated balance sheets of InterActiveCorp (formerly USA Interactive) and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of InterActiveCorp and subsidiaries at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Accounting for Goodwill and Other Intangible Assets." In addition, on January 1, 2001, the Company adopted AICPA Statement of Position 00-2, "Accounting by Producers or Distributors of Films."

/s/ Ernst & Young LLP

New York, New York
February 6, 2003, except for Note 19 and the
financial statement schedule as to which the date
is December 18, 2003

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USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2002	**2001**	**2000**
	(In Thousands, Except Per Share Data)		
Product sales	$ 1,924,882	$ 1,938,979	$ 1,788,886
Service revenue	2,696,342	1,529,881	1,175,726
Net revenue	4,621,224	3,468,860	2,964,612
Operating costs and expenses:			
Cost of sales product sales	1,206,704	1,287,630	1,165,795
Cost of sales service revenue	1,611,739	1,043,667	811,178
Gross profit	1,802,781	1,137,563	987,639
Selling and marketing	580,173	337,899	302,705
General and administrative	521,000	416,464	338,738
Other operating costs	87,897	81,158	69,473
Amortization of cable distribution fees	53,680	43,975	36,322
Amortization of non-cash distribution and marketing expense	37,344	26,385	11,665
Amortization of non-cash compensation expense	15,899	7,800	12,740
Depreciation	177,219	131,308	105,380
Amortization of intangibles and goodwill	146,183	294,583	314,768
Restructuring charges	74,386	14,414	
Goodwill impairment	22,247		145,594

	Years Ended December 31,		
Operating profit (loss)	86,753	(216,423)	(349,746)
Other income (expense):			
Interest income	114,552	26,994	38,753
Interest expense	(44,755)	(46,179)	(46,119)
Gain on sale of subsidiary stock			108,343
Equity in losses in unconsolidated subsidiaries and other	(109,522)	(51,849)	(59,326)
Total other income (expense), net	(39,725)	(71,034)	41,651
Earnings (loss) from continuing operations before income taxes and minority interest	47,028	(287,457)	(308,095)
Income tax expense	(5,572)	(2,450)	(43,850)
Minority interest	(34,078)	103,108	179,547
Earnings (loss) from continuing operations before cumulative effect of accounting change	7,378	(186,799)	(172,398)
Gain on contribution of USA Entertainment to VUE, net of tax	2,378,311		
Gain on disposal of Broadcasting stations, net of tax		517,847	
Discontinued operations, net of tax	28,803	61,747	24,415
Earnings (loss) before cumulative effect of accounting change	2,414,492	392,795	(147,983)
Cumulative effect of accounting change, net of tax	(461,389)	(9,187)	
Earnings (loss) before preferred dividends	1,953,103	383,608	(147,983)
Preferred dividend	(11,759)		
Net earnings (loss) available to common shareholders	$ 1,941,344	$ 383,608	$ (147,983)
Loss per share from continuing operations before cumulative effect of accounting change available to common shareholders:			
Basic loss per common share	$ (0.01)	$ (0.50)	$ (0.48)
Diluted loss per common share	$ (0.02)	$ (0.50)	$ (0.48)
Earnings (loss) per share, before cumulative effect of accounting change available to common shareholders:			
Basic earnings (loss) per common share	$ 5.64	$ 1.05	$ (0.41)
Diluted earnings (loss) per common share	$ 5.62	$ 1.05	$ (0.41)
Net earnings (loss) per share available to common shareholders:			
Basic earnings (loss) per common share	$ 4.55	$ 1.03	$ (0.41)
Diluted earnings (loss) per common share	$ 4.54	$ 1.03	$ (0.41)

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

ASSETS

	December 31, 2002	December 31, 2001

	December 31, 2002	December 31, 2001
	(In Thousands, Except Share Data)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,998,114	$ 392,176
Restricted cash equivalents	40,696	9,107
Marketable securities	1,929,058	757,665
Accounts and notes receivable, net of allowance of $29,286 and $16,252, respectively	310,811	263,934
Receivable from sale of USAB		589,625
Inventories, net	197,584	197,354
Deferred tax assets	2,007	39,946
Other current assets, net	143,952	84,727
Net current assets of discontinued operations		38,343
Total current assets	4,622,222	2,372,877
PROPERTY, PLANT AND EQUIPMENT:		
Computer and broadcast equipment	552,484	349,145
Buildings and leasehold improvements	141,267	125,491
Furniture and other equipment	138,412	91,292
Land	15,802	15,665
Projects in progress	20,891	45,754
	868,856	627,347
Less: accumulated depreciation and amortization	(437,401)	(228,360)
Total property, plant and equipment	431,455	398,987
OTHER ASSETS:		
Goodwill	5,997,842	3,070,129
Intangible assets, net	1,258,070	230,843
Cable distribution fees, net	167,249	158,880
Long-term investments	1,582,182	64,731
Preferred interest exchangeable for common stock	1,428,530	
Note receivables and advances, net of current portion ($13,365 and $99,819, respectively, from related parties)	19,090	108,095
Advance to Universal		39,265
Deferred charges and other, net	156,473	83,261
Total other assets	10,609,436	3,755,204
TOTAL ASSETS	$ 15,663,113	$ 6,527,068

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

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2002	December 31, 2001
	(In Thousands, Except Share Data)	
CURRENT LIABILITIES:		
Accounts payable, trade	$ 481,790	$ 296,827
Accounts payable, client accounts	131,348	102,011
Cable distribution fees payable	39,107	32,795
Expedia deferred merchant bookings	149,348	
Deferred revenue	115,554	75,256
Income tax payable	177,094	188,806
Current maturities of long-term obligations	24,957	33,519
Other accrued liabilities	422,258	262,727
Total current liabilities	1,541,456	991,941
Long-Term Obligations, net of current maturities	1,211,145	544,372
Other Long-Term Liabilities	91,012	26,350
Deferred Income Taxes	2,385,006	210,184
Net Long-term Liabilities of Discontinued Operations		102,032
Common Stock Exchangeable For Preferred Interest	1,428,530	
Minority Interest	1,074,501	706,688
SHAREHOLDERS' EQUITY:		
Preferred stock- $.01 par value; authorized 100,000,000 shares; 13,118,182 issued and outstanding as of December 31, 2002	131	
Common stock $.01 par value; authorized 1,600,000,000 shares; issued 392,334,359 and 321,474,696 shares respectively, and outstanding 385,698,610 and 315,073,017 shares, respectively including 441,169 and 369,000 of restricted stock, respectively	3,852	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	5,941,141	3,918,401
Retained earnings	2,122,611	181,267
Accumulated other comprehensive income (loss)	15,697	(11,605)
Treasury stock 6,635,749 and 6,401,679 shares, respectively	(147,617)	(141,341)
Note receivable from key executive for common stock issuance	(4,998)	(4,998)
Total shareholders' equity	7,931,463	3,945,501
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 15,663,113	$ 6,527,068

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

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USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Note Receivable

	Total	Preferred Stock $	Preferred Stock Shares	Common Stock $	Common Stock Shares	Class B Convertible Common Stock $	Class B Convertible Common Stock Shares	Addit. Paid-in Capital	Retained Earnings (Accum. Deficit)	Accum. Other Comp. Income (Loss)	Treasury Stock	Note Receivable From Key Executive for Common Stock Issuance
						(In Thousands)						
Balance as of December 31, 1999	$ 2,769,729	$		$ 2,740	274,703	$ 630	63,033	$ 2,830,506	$ (54,358)	$ 4,773	$ (9,564)	$ (4,998)
Comprehensive income:												
Net loss for the year ended December 31, 2000	(147,983)								(147,983)			
Decrease in unrealized gains in available for sale securities	(11,958)									(11,958)		
Foreign currency translation	(3,640)									(3,640)		
Comprehensive loss	(163,581)											
Issuance of common stock upon exercise of stock options	37,341			46	4,577			37,295				
Income tax benefit related to stock options exercised	26,968							26,968				
Issuance of stock in connection with PRC acquisition	887,371			322	32,265			887,049				
Issuance of stock in connection with other transactions	11,950			4	217			11,946				
Purchase of treasury stock	(129,907)			(57)	(5,837)						(129,850)	
Balance as of December 31, 2000	$ 3,439,871											