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

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 2)

(Mark One)

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

or

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

Commission File No. 0-20570

USA Interactive

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

EXPLANATORY NOTE

The Registrant hereby amends and restates in its entirety Item 1, Consolidated Financial Statements, as described. On May 7, 2002, USA Interactive (formerly, USA Networks, Inc.) completed its previously announced transaction with Vivendi Universal, S.A. to create a joint venture called Vivendi Universal Entertainment LLLP. In conjunction with the transaction, USA Interactive contributed the USA Entertainment Group to Vivendi Universal Entertainment. The USA Entertainment Group consists of USA Cable, including USA Network and SciFi Channel and Emerging Networks, TRIO, Newsworld International and Crime; Studios USA, which produces and distributes television programming; and USA Films, which produces and distributes films. Previously, the Company filed the consolidated financial statements to present the results of operations and financial position of the USA Entertainment Group as discontinued operations on Amendment No. 1 to the Quarterly Report on Form 10-Q/A. The consolidated financial statements included in this Amendment have been adjusted for the impact of discontinued operations on the determination of diluted weighted average shares outstanding, resulting in lower diluted earnings per share for continuing operations available to common shareholders for the three months ended March 31, 2002 than previously reported, higher diluted earnings per share before cumulative effect of accounting change available to common shareholders and lower net loss per share available to common shareholders for the three months ended March 31, 2002 than previously reported.

PART I FINANCIAL INFORMATION

Item 1. ***Consolidated Financial Statements***

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2002	**2001**

	Three Months Ended March 31,	
	(In thousands, except per share data)	
Product sales	$ 462,442	$ 458,898
Service revenue	509,207	361,764
Net revenue	971,649	820,662
Operating costs and expenses:		
Cost of sales-product sales	301,742	303,657
Cost of sales-service revenue	315,806	246,425
Selling and marketing	145,846	109,619
General and administrative	78,311	72,009
Other operating costs	19,068	19,192
Amortization of non-cash distribution and marketing expense	6,964	8,017
Amortization of non-cash compensation expense	3,808	2,855
Amortization of cable distribution fees	13,000	8,756
Depreciation and amortization	59,321	103,660
Total operating costs and expenses	943,866	874,190
Operating profit (loss)	27,783	(53,528)
Other income (expense):		
Interest income	6,765	7,378
Interest expense	(11,433)	(11,559)
Loss in unconsolidated subsidiaries and other	(12,132)	(6,529)
	(16,800)	(10,710)
Earnings (loss) from continuing operations before income taxes and minority interest	10,983	(64,238)
Income tax expense	(15,950)	(4,565)
Minority interest expense	8,937	25,180
Earnings (loss) from continuing operations before cumulative effect of accounting change	3,970	(43,623)
Discontinued operations, net of tax	21,930	26,240
Earnings before cumulative effect of accounting change	25,900	(17,383)
Cumulative effect of accounting change, net of tax	(310,587)	(9,187)
Net Loss	(284,687)	(26,570)
Preferred dividend	(1,967)	
Net Loss Available to Common Shareholders	$ (286,654)	$ (26,570)
Earnings (loss) per share from continuing operations available to common shareholders:		
Basic earnings (loss) per common share	$ .01	$ (.12)
Diluted earnings (loss) per common share	(.01)	$ (.12)
Earnings (loss) per share before cumulative effect of accounting change available to common shareholders:		
Basic earnings (loss) per common share	$ .06	$ (.05)
Diluted earnings (loss) per common share	$ .06	$ (.05)

	Three Months Ended March 31,	
Net Loss per Share Available to Common Shareholders:		
Basic loss per common share	$ (.73)	$ (.07)
Diluted loss per common share	(.33)	(.07)

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

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

	March 31, 2002	December 31, 2001
	$ 7,990,358	$ 6,539,850

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

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USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

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

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

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

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

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

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
	(In Thousands)	
Cash flows from operating activities:		
Earnings (loss) from continuing operations before cumulative effect of accounting change	$ 3,970	$ (43,623)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	59,321	103,660
Amortization of cable distribution fees	13,000	8,756
Amortization of deferred financing costs	343	465
Amortization of non-cash distribution and marketing	6,964	8,017
Amortization of non-cash compensation expense	3,808	2,855
Deferred income taxes	9,133	(1,077)
Equity in losses of unconsolidated affiliates	13,473	4,258
Non-cash interest income	(235)	(1,614)
Minority interest expense	(8,937)	(25,180)
Changes in current assets and liabilities:		
Accounts receivable	30,780	156
Inventories	7,619	17,775
Accounts payable	(11,782)	(23,977)
Accrued liabilities and deferred revenue	(95,039)	28,286
Increase in cable distribution fees	(12,884)	(732)
Other, net	(5,948)	(8,307)
Net Cash Provided By Operating Activities	13,586	69,718
Cash flows from investing activities:		
Acquisitions, net of cash acquired	242,306	(79,905)
Capital expenditures	(28,031)	(21,678)
Recoupment of advance to Universal	19,735	16,474
Increase in long-term investments and notes receivable	(603)	(30,619)
(Purchase) redemption of marketable securities	(55,154)	45,565
Proceeds from sale of broadcast stations	589,625	
Other, net	(10,119)	(4,589)
Net Cash Provided By (Used In) Investing Activities	757,759	(74,752)
Cash flows from financing activities:		
Borrowings	2,829	40,905
Principal payments on long-term obligations	(1,854)	(3,368)
Purchase of treasury stock	(2,895)	(646)
Payment of mandatory tax distribution to LLC partners	(153,479)	(17,369)
Proceeds from sale of subsidiary stock	33,566	913
Proceeds from issuance of common stock and LLC shares	100,339	29,495
Other, net	(243)	(6,829)
Net Cash Provided By (Used In) Financing Activities	(21,737)	43,101

	Three Months Ended March 31,	
Discontinued operations	(18,451)	29,837
Effect of exchange rate changes on cash and cash equivalents	34	(3,022)
Net Increase In Cash and Cash Equivalents	731,191	64,882
Cash and cash equivalents at beginning of period	978,377	244,223
Cash And Cash Equivalents at End of Period	$ 1,709,568	$ 309,105

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

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USA INTERACTIVE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 ORGANIZATION

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

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

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

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

Basis of Presentation

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

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

Accounting Estimates

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

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

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

New Accounting Pronouncements

Accounting for Goodwill and Other Intangible Assets

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

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

Impairment or Disposal of Long-Lived Assets

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

Accounting by Producers or Distributors of Films (Discontinued Operations)

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

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

Reclassifications

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 BUSINESS ACQUISITIONS

Expedia Transaction

On February 4, 2002, USA completed its acquisition of a controlling interest in Expedia through a merger of one of its subsidiaries with and into Expedia. Immediately following the merger, USA owned all of the outstanding shares of Expedia Class B common stock, representing approximately 64.2% of Expedia's then outstanding shares, and 94.9% of the voting interest in Expedia. On February 20, 2002, USA acquired 936,815 shares of Expedia common stock, increasing USA's ownership to 64.6% of Expedia's the then outstanding shares, with USA's voting percentage remaining at 94.9%. In the merger, USA issued to former holders of Expedia common stock who elected to