

Expedia, Inc.
Form 425
May 04, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

CURRENT REPORT

**PURSUANT TO SECTION 13 or 15(d) of the
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **May 4, 2005**

IAC/INTERACTIVECORP

(Exact name of Registrant as specified in charter)

Delaware

0-20570

59-2712887

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(State or other jurisdiction
of incorporation)

(Commission File
Number)

(IRS Employer
Identification No.)

152 West 57th Street, New York, NY
(Address of principal executive offices)

10019
(Zip Code)

Registrant's telephone number, including area code:

(212) 314-7300

Registrant's telephone number, including area code: **(212) 314-7300**

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(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION/ ITEM 7.01 REGULATION FD DISCLOSURE

On May 4, 2005, the Registrant issued a press release announcing its results for the quarter ended March 31, 2005. The full text of this press release, appearing in Exhibit 99.1 hereto, is incorporated herein by reference.

The attached document is furnished under both Item 2.02 Results of Operations and Financial Condition and Item 7.01 Regulation FD Disclosure.

The attached document refers to non-GAAP measures, within the meaning of Regulation G. Below is additional information regarding those non-GAAP measures.

IAC S PRINCIPLES OF FINANCIAL REPORTING

IAC reports Operating Income Before Amortization, Adjusted Net Income, Adjusted EPS and Free Cash Flow, all of which are supplemental measures to GAAP. These measures are among the primary metrics by which we evaluate the performance of our businesses, on which our internal budgets are based and by which management is compensated. We believe that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. We provide and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measures as set forth in the exhibit attached hereto and which we discuss below.

Definitions of IAC's Non-GAAP Measures

Operating Income Before Amortization is defined as operating income plus: (1) amortization of non-cash distribution, marketing and compensation expense, (2) amortization of intangibles and goodwill impairment, if applicable, (3) pro forma adjustments for significant acquisitions and (4) one-time items. See below for explanations of these adjustments. We believe this measure is useful to investors because it represents the consolidated operating results from IAC's segments, taking into account depreciation, which we believe is an ongoing cost of doing business, but excluding the effects of any other non-cash expenses. Operating Income Before Amortization has certain limitations in that it does not take into account the impact to IAC's statement of operations of certain expenses, including non-cash compensation, non-cash payments to partners, and acquisition-related accounting.

Adjusted Net Income generally captures all items on the statement of operations that have been, or ultimately will be, settled in cash and is defined as net income available to common shareholders plus: (1) amortization of non-cash distribution, marketing and compensation expense, (2) amortization of intangibles and goodwill impairment, if applicable, (3) pro forma adjustments for significant acquisitions, (4) equity income or loss from IAC's 5.44% interest in Vivendi Universal Entertainment LLLP (VUE), (5) one-time items, net of related tax, and minority interest, and (6) discontinued operations, net of tax. We believe Adjusted Net Income is

useful to investors because it represents IAC's consolidated results, taking into account depreciation, which we believe is an ongoing cost of doing business, as well as other charges which are not allocated to the operating businesses such as interest expense, taxes and minority interest, but excluding the effects of any other non-cash expenses.

Adjusted EPS is defined as Adjusted Net Income divided by weighted fully diluted shares outstanding for Adjusted EPS purposes. We include dilution from options and warrants per the treasury stock method and include all shares relating to restricted stock/share units (RSUs) in shares outstanding for Adjusted EPS. This differs from the GAAP method for including RSUs, which treats them on a treasury method basis. Shares outstanding for Adjusted EPS purposes are therefore higher than shares outstanding for GAAP EPS purposes. We believe Adjusted EPS is useful to investors because it represents, on a per share basis, IAC's consolidated results, taking into account depreciation, which we believe is an ongoing cost of doing business, as well as other charges which are not allocated to the operating businesses such as interest expense, taxes and minority interest, but excluding the effects of any other non-cash expenses. Adjusted Net Income and Adjusted EPS have the same limitations as Operating Income Before Amortization, and in addition Adjusted Net Income and Adjusted EPS do not account for IAC's passive ownership in VUE. Therefore, we think it is important to evaluate these measures along with our consolidated statement of operations.

Free Cash Flow is defined as net cash provided by operating activities, including preferred dividends received from VUE, less capital expenditures, investments to fund HSN International unconsolidated operations and preferred dividends paid by IAC. In addition, Free Cash Flow includes tax distributions on the VUE common and preferred interests upon receipt of the distributions by IAC. For purposes of Free Cash Flow, we also include changes in warehouse loans payable in Financial Services and Real Estate due to the close connection that exists with changes in loans held by sale which are included in cash provided by operations. We believe Free Cash Flow is useful to investors because it represents the cash that our operating businesses generate, before taking into account cash movements that are non-operational.

Free Cash Flow has certain limitations in that it does not represent the total increase or decrease in the cash balance for the period, nor does it represent the residual cash flow for discretionary expenditures. For example, it does not take into account stock repurchases. Therefore, we think it is important to evaluate Free Cash Flow along with our consolidated statement of cash flows.

We endeavor to compensate for the limitations of the non-GAAP measures presented by providing the comparable GAAP measures, GAAP financial statements, and descriptions of the reconciling items and adjustments, including quantifying such items, to derive the non-GAAP measures.

Pro Forma Results

We will only present Operating Income Before Amortization, Adjusted Net Income and Adjusted EPS on a pro forma basis if we view a particular transaction as significant in size or transformational in nature. For the periods presented in the attached exhibit, there are no transactions that we have included on a pro forma basis.

One-Time Items

Operating Income Before Amortization is presented before one-time item, if applicable. These items are truly one-time in nature and non-recurring, infrequent or unusual, and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. GAAP results include one-time items. For the periods presented in the attached exhibit, Operating Income Before Amortization is not adjusted for any one-time items.

Non-Cash Expenses That Are Excluded From Our Non-GAAP Measures

Amortization of non-cash compensation expense consists of restricted stock and options expense, which relates mostly to unvested options assumed by IAC in the Ticketmaster, Hotels.com and Expedia mergers. We view this expense as part of transaction costs, which are not paid in cash, and we include the related shares in our fully diluted shares outstanding. Non-cash compensation also includes the expense associated with IAC's RSU program. We view the true cost of these RSUs as the dilution to our share base, and as such all RSUs are included in our shares outstanding for Adjusted EPS purposes.

Amortization of non-cash distribution and marketing expense consists mainly of Hotels.com performance warrants issued to obtain distribution and non-cash advertising secured from Universal Television as part of the transaction pursuant to which VUE was created (the "VUE transaction"). The Hotels.com warrants were principally issued as part of its initial public offering, and we do not anticipate replicating these arrangements. The non-cash advertising from Universal is primarily for the benefit of Expedia, which runs television advertising primarily on the USA and Sci Fi cable channels without any cash cost. Ticketmaster and Match.com also recognized non-cash distribution and marketing expense related to barter arrangements, which expired in March 2004, for distribution secured from third parties, whereby advertising was provided by Ticketmaster and Match.com to a third party in return for distribution over the third party's network. The advertising provided has been secured by IAC through an agreement with Universal as part of the VUE transaction. Sufficient advertising has been secured to satisfy existing obligations. We do not expect to replace this non-cash marketing with an equivalent cash expense after it runs out in 2007, nor would IAC incur such amounts absent the advertising received in the VUE transaction.

Amortization of intangibles is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the intangible assets of the acquired company, such as supplier contracts and customer relationships, are valued and amortized over their estimated lives. While it is likely that we will have significant intangible amortization expense as we continue to acquire companies, we believe that since intangibles represent costs incurred by the acquired company to build value prior to acquisition, they were part of transaction costs and will not be replaced with cash costs when the intangibles are fully amortized.

Equity income or loss from IAC's 5.44% common interest in VUE is excluded from Adjusted Net Income and Adjusted EPS because IAC has no operating control over VUE, has no way to forecast this business, and does not consider the results of VUE in evaluating the performance of IAC's businesses.

Free Cash Flow

IAC has significant positive working capital balances that benefit Free Cash Flow and are largely due to deferred merchant bookings and deferred revenue related to the merchant lodging business at Expedia and Hotels.com, respectively. In our merchant lodging business, cash is collected in advance of stay, and revenue is recognized at the date of travel, after which hotel suppliers invoice Expedia and Hotels.com. Working capital consists of cash deposits from customers, net of revenue recognized as a result of a customer stay, plus the increase in payables to hotel suppliers net of cash paid out in the period.

These balances are comparable to payable and receivable balances in any other company, except that the benefit, or float, that we get is inherent in our business model. It represents the real cash earning power of our company, and is reflected in increased working capital purely because we recognize revenue at the customer stay date rather than at the booking date. It is similar to any other cash inflow in the normal course of business and we view this as permanent cash that we can put to work. As long as the merchant lodging businesses continue to grow positively, as they have historically, and our business model does not change, we expect that the change in working capital will continue to be positive. All other conditions remaining the same, if the dollar growth in revenue from our merchant hotel businesses decreases from year to year, then the change in working capital, while still positive, will decrease from year to year, which will adversely affect free cash flow in comparison to the prior year. If the businesses were to decline or if the model otherwise changed, it would negatively impact working capital.

We look at Free Cash Flow as a measure of the strength and performance of our businesses, not for valuation purposes. In our view, applying multiples to Free Cash Flow is inappropriate because it is subject to timing, seasonality and one-time events. We manage our business for cash and we think it is of utmost important to maximize cash but our primary valuation metrics are Operating Income Before Amortization and Adjusted EPS. In addition, because Free Cash Flow is subject to timing, seasonality and one-time events, we believe it is not appropriate to annualize quarterly Free Cash Flow results.

Item 8.01 OTHER EVENTS

On May 4, 2005, the Registrant's Chief Financial Officer issued a communication to all of the Registrant's employees concerning the Registrant's results for the quarter ended March 31, 2005. The full text of this communication, appearing in Exhibit 99.2 hereto, is incorporated herein by reference.

Item 9.01 FINANCIAL STATEMENTS AND EXHIBITS

Exhibit No.	Description
99.1	Press Release of IAC/InterActiveCorp dated May 4, 2005.
99.2	Employee communication dated May 4, 2005.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IAC/INTERACTIVECORP

By: /s/ Gregory R. Blatt
Name: Gregory R. Blatt
Title: Executive Vice President and
General Counsel

Date: May 4, 2005

FOR IMMEDIATE RELEASE
May 4, 2005

NEW YORK, NY

IAC REPORTS FIRST QUARTER RESULTS

IAC/InterActiveCorp (NASDAQ: IACI) reported first quarter results today.

Revenue up 14% to \$1.6 billion

Operating income up 226% to \$128 million

Net income up 80% to \$69 million; Diluted EPS up 84% to \$0.09

Operating Income Before Amortization up 30% to \$253 million

Adjusted Net Income up 22% to \$171 million; Adjusted EPS up 24% to \$0.22

IAC had a positive quarter in all respects and most importantly beyond the metrics, is making consistent progress in becoming a disciplined operating Company capable of above average performance, said IAC Chairman and CEO, Barry Diller.

IAC has repurchased 49.2 million shares year-to-date through May 3, at an average price of \$22.13.

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Given the pending spin-off transaction, we thought it appropriate to present Q1 results for the businesses which will comprise IAC and Expedia, respectively, after the spin-off:

	Q1 2005	New IAC Q1 2004	Growth
Revenue	\$ 1,168	\$ 1,034	13%
Operating Income Before Amortization	\$ 143	\$ 115	25%
Operating income	\$ 101	\$ 63	60%

	Q1 2005	New Expedia Q1 2004	Growth
Revenue	\$ 485	\$ 413	17%
Operating Income Before Amortization	\$ 140	\$ 102	38%
Operating income	\$ 108	\$ 67	62%

Results for the businesses after the spin-off exclude the impact of corporate expense (see page 2 for details). The businesses comprising Expedia will consist of IAC Travel, as reported on page 2, but will exclude Interval International and TV Travel Shop (TVTS). The businesses comprising IAC will consist of all other segments as reported on page 2, plus Interval International and TVTS.

Please see page 7 for full GAAP financial statements and page 13 for definitions of non-GAAP measures.

SEE IMPORTANT NOTES AT THE END OF THIS DOCUMENT

SEGMENT RESULTS

Segment results for the first quarter ended March 31 were as follows (\$ in millions):

	Q1 2005	Q1 2004	Growth
REVENUE			
IAC Travel	\$ 563.9	494.0	14%
Electronic Retailing	602.6	561.1	7%
Ticketing	211.3	202.3	4%
Personals	54.2	48.8	11%
IAC Local and Media Services	41.2	32.1	29%
Financial Services and Real Estate	105.8	39.7	166%
Teleservices	77.1	71.8	7%
Other	(9.1)	(6.0)	-52%
Total	\$ 1,647.1	\$ 1,443.8	14%
OPERATING INCOME			
IAC Travel	\$ 129.9	\$ 84.7	53%
Electronic Retailing	46.2	29.3	58%
Ticketing	40.0	40.7	-2%
Personals	4.4	2.8	54%
IAC Local and Media Services	(13.1)	(27.8)	53%
Financial Services and Real Estate	(3.3)	(3.6)	8%
Teleservices	4.2	3.2	33%
Corporate and other	(80.7)	(90.2)	11%
Total	\$ 127.6	\$ 39.1	226%
OPERATING INCOME BEFORE AMORTIZATION			
IAC Travel	\$ 168.5	\$ 127.6	32%
Electronic Retailing			