InterActiveCorp: Time to look beyond?

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It doesn't get much bolder than this. On November 11, 2003, Barry Diller, the legendary Hollywood film mogul, now the Chairman and CEO of InterActiveCorp, stood before a packed house of investment analysts and read the PowerPoint slide displayed behind him:

> *"Our mission is to build the largest, most profitable interactive commerce company in the world by building a diversified portfolio of leading, specialized, and global e-commerce brands."*

With many analysts projecting revenues of $6.2 to $6.4 billion for the year ending December 31, 2003, Barry Diller had the attention of everyone in the room[1]. However he did not have the attention of their wallets. With significant questions about IAC's strategy appearing in that morning's Wall Street Journal, few analysts were willing to actually purchase the IAC stock[2].

As noted in Table A, Wall Street support was weak in 2003, with InterActiveCorp (NASDAQ: IACI) leading its competitors in terms of revenues and profits, but lagging in terms of stock price. The year ahead price/earnings ratio, the premium for which investors are willing to pay for a dollar of earnings, was half of its three peers eBay, Inc., Amazon.com, Inc., and Yahoo!, Inc. Future support looked the same as the past support, with the total 52-week return on the stock at more than 50% of that of eBay.

Table A: Four Horsemen of the Internet as of 12/31/03[3]

Measurement	InterActiveCorp	eBay, Inc.	Amazon.com	Yahoo!, Inc.
Market Cap	$24.0 billion	$41.7 billion	$21.1 billion	$29.6 billion
52 Week EPS	$0.73	$0.68	$0.50	$0.34
2003 Sales Volume	$6.31 billion	$2.13 billion	$5.18 billion	$1.46 billion
Market Cap to Sales	3.48	19.58	4.07	20.27
Year ahead estimated P/E	48.7	88.7	86.9	125.6
Total 52 Week Return	38.9%	86.3%	168.9%	155.9%

Source: Bloomberg.com: Detailed Quotes on 1/2/04
Author's note: All highlighted terms are defined or further explained in the attached glossary. Terms in the glossary appear in the same order that they appear in the text of the case.

This "lack of appreciation" by the stock market did not sit well with Mr. Diller. The price/earnings multiple is a measure of love from the stock market, and clearly Mr. Diller wasn't receiving as much as his three peers. Mr. Diller was used to the fear and adoration of his fans and competitors. The larger than life description of Mr. Diller from his 1998 biography shows how his fans feel about his work.

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1 Zack's Investment Research
2 Angwin, Julia. "Diller Strategy Shift for InterActiveCorp Gets Cool Reception" Wall Street Journal. New York, NY November 11, 2003. C1
3 Laing, Jonathan. "Diller's Goal" Barron's. Chicopee, MA. August 25, 2003. Volume 83 Issue 34 page 13.

When Barry Diller first stepped onto the Hollywood playing field more than three decades ago, few could have imagined the tremendous impact and power he would one-day hold in the entertainment industry. Smart, brash, and a bold risk taker, Diller is considered by many to be the best the business has ever seen. [4]

With InterActiveCorp at a crossroads, the stock market was skeptical about Mr. Diller's strategy of bringing multiple Internet brands under one roof. Said one brand strategy consultant, "It is not clear that InterActiveCorp is a brand people care about."[5] Said one stock market analyst, "It's a faith stock."[6] According to NewMediaAge, "So far Diller hasn't done much to bring his businesses together, such as cross-selling between Expedia and Ticketmaster."[7] (See Appendix A for a brief outline of brand strategies.)

With $2.5 billion in cash available on the balance sheet as of September 30, 2003, Mr. Diller did not necessarily need the support of the investment community to continue making acquisitions.[8] However, if he was required to use stock in an acquisition, he needed the stock to be trading at a high price. Mr. Diller needed to convince the investment analysts that his on-line conglomerate, IAC, could digest nearly $10 billion in acquisitions over the last 24 months and continue to grow. Appendix B provides detail on IAC's corporate history.

InterActiveCorp as of December 31, 2003

From 2001-2003, InterActiveCorp (IAC) achieved a dramatic transformation from an entertainment business with holdings in a few diverse interactive assets to fully owning some of the leading brands on the Internet. Thanks to a buying binge, IAC is now the world's largest consumer e-commerce business. IAC's revenues are projected to grow to $6.397 billion for the fiscal year ending December 31, 2003, compared to $2.964 billion for the fiscal year ending December 31, 2000. As noted in Table A, the next closest competitor is Amazon.com at $1.2 billion less than IAC.

While Home Shopping Network (HSN) was initially the core interactive business in IAC's portfolio, the company has surrounded it with a number new online assets. As a result, IAC has assembled a portfolio of businesses that hold either the number one or number two positions in five primary interactive segments (see Table B.)

Table B – IAC – The online GE?

Segment	Industry Rank	Market Share %	Total Industry Sales
Travel	#1	19%	$44 billion
TV/Internet Retailing	#2	28%	$6 billion
Online Ticketing	#1	63%	$3 billion
Personals	#1	30%	$0.5 billion
Online Mortgages	#2	15%	$101 billion

Source: www.sec.gov Form 8k filed November 12, 2003

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[4] Mair, George. The Barry Diller Story: The Life and Times of America's Greatest Entertainment Mogul. New York. John Wiley & Sons; April 24, 1998

[5] Harrison, Joan. "Searching for value drivers in InterActiveCorp's M&A strategy." Mergers and Acquisitions. Philadelphia, PA July 2003. Volume 38. Page 13.

[6] Angwin, Julia. "Diller Strategy Shift for InterActiveCorp Gets Cool Reception" Wall Street Journal. New York, NY November 11, 2003. C1

[7] Anonymous. Top 50 Key Players: Barry Diller. NewMediaAge. London. December 11, 2003 page 30

[8] www.sec.gov Form 10Q for the quarterly period ended September 30, 2003

IAC Divisions

IAC Travel: Through the acquisitions of Expedia, Hotels.com, TV Travel Store (UK), Anyway.com, and Hotwire.com, as well as the development of Classic Custom Vacations and Interval World, the IAC Travel Division is a leader in the online travel space with nearly 20% share of the domestic leisure market. IAC's leadership in this area is even more significant given that travel has one of the highest online penetration rates of all commerce segments. Industry sources suggest that Internet bookings account for about 25-30% of the total domestic leisure travel market in 2003 and will increase to above 50% by 2006[9]. IAC operates across all segments of the online travel industry including the merchant model (selling rooms out of an inventory of rooms), agency business (acting as a sales agent for someone else), and the opaque offering (creating and selling travel packages).

IAC Electronic Retailing: As the division least dependent on the Internet, HSN holds the number two position in television shopping behind QVC and ahead of ValueVision. HSN is different from IAC's other businesses in that it holds tangible merchandise inventory and requires fulfillment and distribution. Chairman and CEO Barry Diller has recently stated that IAC is fully committed to HSN and will not sell the business.

IAC Ticketing: Ticketmaster is almost synonymous with the event ticketing process, and holds more than a 50% market share of the online ticketing business. IAC claims that nearly half of Ticketmaster's sales are currently conducted online and they estimate that this figure will increase to 65% by 2008. Other ticketing brands owned by IAC include Ticketweb and ReserveAmerica. IAC Ticketing President John Pleasants is keenly focused on growing the European and Asian businesses in the years ahead.[10]

IAC Personals: Match.com is the Internet's leading personal/dating service in terms of revenue and membership. According to the Online Publishers Association, personals/dating is the Internet's leading paid content category[11]. IAC Personals has been designated as an important growth business for IAC, but faces considerable market hurdles. While brand awareness of Match.com is high, the "category legitimacy" (number of people who would use or recommend online dating) remains low. According to Match.com's own research, only 41% of Match.com's subscribers would admit to a family member that they used Match.com.

IAC Mortgages/Lending: Through the recent acquisition of LendingTree.com, IAC owns a leading platform for online mortgages, having facilitated more that $55 billion in closed mortgages since inception. When considering on-line and off-line lenders, 50,000 institutions granted $3.3 trillion in closed mortgages in 2003. In the coming years, IAC plans to expand the LendingTree platform (consolidated and automatic decision process) more broadly in home equity, auto, credit card, and personal loans. The acquisition of the GetSmart business from Providian Financial Corporation, announced December 16, 2003, will serve to increase the base of customers that lenders can reach.

IAC Local Connections and Local Services: Through Citysearch, Entertainment, and Evite, IAC provides a business model that creates offers online, distributes the offers online, and then consummates the transactions offline. Citysearch (and its sister brand Cityguide) advertise events in towns through out the United States. Entertainment provides the famous discount coupon

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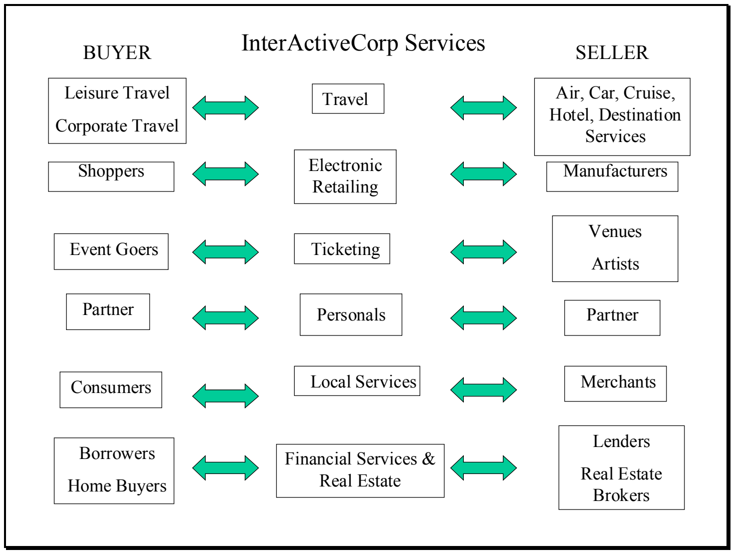
[9] Lehman Brothers Equity Research, December 16, 2003

[10] www.sec.gov Form 8k filed November 12, 2003

[11] www.online-publishers.org Paid Online Content Demographic and Usage Report September 2003

books for major cities. Evite manages the process of online party invitations. IAC has reported very little individual segment data on this division.

<u>Figure 1: IAC as online intermediary</u>



Source: www.sec.gov Form 8k filed November 12, 2003

<u>IAC Strategy</u>

IAC has proven to investors that it can grow by acquisition, but now it needs to prove that it can grow from within (strategists would call this "organic growth.") IAC has pledged to improve the profitability of its existing operations and invest for the long-term. In order to grow organically, IAC needs to

1. Invest in technology and marketing
2. Cut operating expenses by integrating the computer systems of the acquired companies,
3. Attempt to "cross sell" other services within the IAC family of brands (for example have Expedia customers use LendingTree), and
4. Develop brand loyalty with its customers.

Barry Diller stated that IAC is likely to be less acquisitive in the near future, with the focus on integrating core businesses[12]. Given the considerable consolidation that investors and the company are currently digesting, IAC is expected to focus on smaller strategic opportunities that complement existing operations.

For the year 2004, IAC plans to increase sales and marketing spending across all brands from $500 million in 2003 to $900 million. Within the brands, IAC Travel will deploy more marketing dollars to build its leadership position in the merchant hotel business and fend off increasing competition from Travelocity, Orbitz, and the individual hotel chains. HSN will focus on improving customer service and fulfillment, which have typically lagged behind that of QVC. Ticketmaster will invest heavily in its core technology as it seeks to increase its already dominant share of ticketing space. Finally, CitySearch will continue to grow its pay-for-performance advertiser base of local merchants as it seeks to capitalize on the growing success of online search. (See Figure 2)

[12] Angwin, Julia. "Diller Strategy Shift for InterActiveCorp Gets Cool Reception" <u>Wall Street Journal</u>. New York, NY November 11, 2003. C1

Figure 2: Future growth plans

IAC/Electronic Retailing
Customer Service
Fulfillment capabilities

IAC Financial Services
Real Estate
New Technology

IAC Local Services
Online Product
Registered Card
Pay for Performance

IAC Personals
New Products
Advanced Search
Community
Quizlets
Events

IAC Ticketing
Upgrade core technology
International Rebuild
New Products

IAC Travel
International
Corporate Travel
New Products

Interactive Development
New Ideas

Source: www.sec.gov Form 8k filed November 12, 2003

Lending Tree will likely be adversely affected by rising interest rates as higher borrowing cost could slow mortgages and refinancings. The number of loan requests transmitted by Lending Tree was down 15% quarter over quarter in the third quarter of 2003 (three months ending 9/30/03) as interest rates rose slightly. The Mortgage Bankers of America have suggested that mortgage volume could fall 50% in 2004.[13]

As noted in Table C, much of IAC's corporate growth hinges on growth in the IAC Travel Division. While IAC has invested more into online travel industry than any other company in history, growth is not guaranteed.

Table C - LONG TERM GOAL - Revenues

Division	Last Twelve Months	2006	2008	'03 – '08 CAGR%
IAC Travel	$2,412	6,200	9,600	30%
Electronic Retailing	2,149	3,100	3,800	11%
Ticketing	725	900	1,100	9%
Personals	175	370	450	19%
Local Services	256	450	730	26%
Financial Services	24	290	420	47%
Teleservices	294	360	440	9%
Eliminations	(16)	(40)	(50)	nm
Total Revenues	$6,018	$11,600	$16,500	2

Source: www.sec.gov Form 8k filed November 12, 2003

IAC is expecting a significant payoff from its $500 million to $900 million investment. Table D shows that IAC is projecting a compound average growth rate of 20% per year through 2008.

[13] www.mbaa.org/marketdata/ MBA Releases Long-Term Forecast for U.S. Economy and Housing Market. 10/22/03

Table D - LONG TERM GOAL – Operating Earnings before amortization

Division	Last Twelve Months	2006	2008	’03 – ‘08 CAGR%
IAC Travel	$445	$1,200	$2,000	32%
Electronic Retailing	204	380	550	20%
Ticketing	133	200	280	16%
Personals	33	80	100	28%
Local Services	24	90	150	49%
Financial Services	3	90	130	82%
Teleservices	10	25	35	35%
Corp Charges	(97)	(160)	(210)	Nm
Total Operating Earnings b/f amort	$755	$1,900	$3,000	20%

Source: www.sec.gov Form 8k filed November 12, 2003

Online Travel

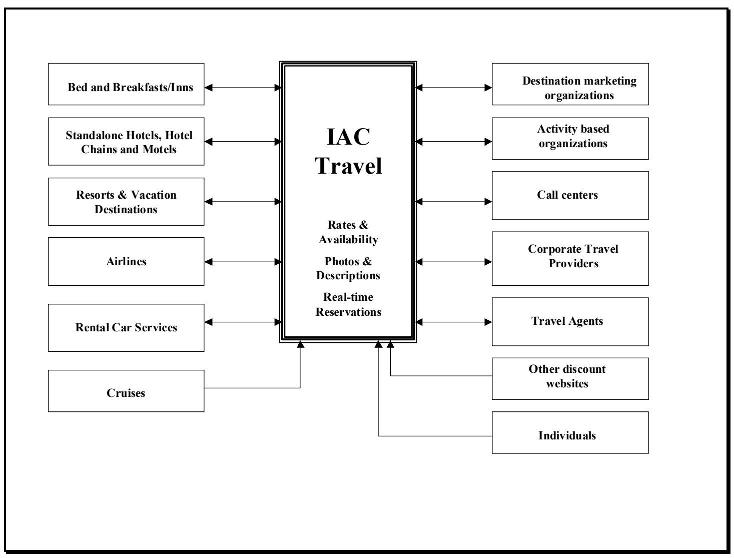
IAC Travel is expecting IAC travel to account for 58.2% of its revenues and 66.7% of its earnings by 2008. IAC Travel views itself as an aggregator or “butterfly” company. If Figure 3 were a butterfly, IAC Travel would represent the body. One wing would represent the suppliers of hotel rooms, cars, and air travel and their activities such as sourcing and negotiating. The other wing would represent the demand for that supply via Internet distribution. The distribution of rooms, cars, or flights could go through IAC Travel or competitor Internet portals (Yahoo, AOL, Lycos, Ask Jeeves, Looksmart), niche sites (adventure travel, GORP, Student Travel Guide), travel sites (Frommers, Lonely Planet), online travel agents (Travelocity, CheapTickets), or Travel Global Distribution Systems (Sabre, Galileo, Worldspan, Amadeus).

The IAC Travel system is completely Internet-based, and was built exclusively for the Internet using state-of-the art technology. The system delivers reservations to travel suppliers at lower cost and with fewer intermediaries than older legacy systems. IAC Travel interface is intuitive and easy to use for both travel suppliers who wish to update their content and travelers looking to make reservations

Consistent with industry practices, IAC travel has few agreements with travel suppliers that require them to provide inventory for IAC Travel to sell through its various websites. Therefore, it is possible that travel suppliers may choose not to make their inventory of services and products available through IAC Travel distribution channels. These travel suppliers could elect to sell exclusively through other sales and distribution channels (Travelocity, or American Express Travel) or to restrict IAC’s access to their inventory (sell the inventory through their own websites). In order to reduce this risk, IAC Travel must draw the most Internet traffic and transactions though its various websites. If IAC Travel remains the leader in online travel sales, then the hotels, airlines, and car services are less likely withhold inventory, or start competing websites.

IAC Travel is competing in a business segment that is highly fragmented and commoditized. When potential purchasers log on to Expedia, Travelocity, Yahoo, Priceline, or Hotwire they are looking for the lowest rate. Service also counts, but price is the primary reason for making the purchase. IAC Travel sites Expedia and Hotels.com are seeking to change this dynamic by providing users with a different experience.[14] While Priceline can deliver a very low price, the buyer needs to purchase each segment of the trip (car rental, air, hotel) separately. Expedia and Hotels.com provide many different vacation packages and trips (car, air, and hotel included), thereby removing some of the hassle for the buyer. In addition, by encouraging "membership" on the sites, IAC Travel is able to send targeted email promotional specials to "members." For example, if past purchases show that the member has an affinity for Las Vegas, IAC Travel will alert the member when Las Vegas packages are offered. Or as another example, IAC Travel might advertise "weekend getaway" trips to warm weather destinations following severe winter weather in the Northeast. This membership concept puts IAC Travel in a superior competitive position at present. However, most ideas and technology sold by or over the Internet are rarely sustainable for a long period. (IAC's own assessment of online travel business risks are found in Appendix C.)

Figure 3: Stakeholders in Online Travel



Management:
InteractiveCorp is managed through the "Office of the Chairman," a four person decision-making group. Barry Diller is the Chairman and Chief Executive Officer . Victor Kaufman is Vice Chairman and oversees all strategic planning, financial and legal matters for IAC. Dara Khosrowshahi is Executive Vice President and Chief Financial Officer and oversees all financial matters for the Company. Julius Genachowski became Executive Vice President and Chief of Business Operations. While the four managers guide the direction of the Company, it is Mr. Diller's personality that remains as the public face of IAC.

Barry Diller is famous for his demanding management style. While some of his supporters call his style "Socratic" others call it "abusive." While he spends a fortune on his custom made wardrobe, he can still operate like a street fighter. Former co-workers in Hollywood still talk about the videocassette that he hurled in anger at one of his subordinates while at Fox. The

[14] Pine, B. Joseph and Gilmore, James H. Harvard Business Review. "Welcome to the Experience Economy" July-August 1998. Reprint #98407

cassette ended up lodged in the wall above the subordinate's head. The executive left it in the wall and drew a picture frame around it to memorialize the occasion.[15]

According to Business Week, Mr. Diller can be a difficult micromanager. Since he took over ABC at the age of 26, he has managed by force of personality and ultra-centralized decision-making. Early in IAC's life, Mr. Diller lost or ejected a half-dozen high-profile executives, including the current America Online CEO Jonathan Miller.

In 2003, Mr. Diller hired former General Electric Chairman Jack Welch to help devise a structure that would let the heads of the IAC divisions run their own operations day-to-day. The system has been in effect since June 2003. "He is more in a watch mode than a micromanage mode," says Robert Diener, president of Hotels.com.[16] Mr. Diller's operating principals for 2004 are a far cry from the image he has portrayed through out 30+ years of deal making and management:

- Push responsibility down to talented executives at the business units
- Clear communication between the business units and Corporate
- Concise list of key items requiring Corporation approval
- Compensation will be performance based

Stock Price and the future

For all of Barry Diller's bravado, IAC stock still trades at a discount to its three major peers: Ebay, Amazon.com, and Yahoo!.

While investors clearly like IAC, they do not love it as much as Ebay or Yahoo!. One reason for the slightly depressed share price is the complexity of the IAC businesses. IAC has six distinct divisions, whereas Ebay sticks to auctions and Yahoo! Brokers consumer sales. Amazon, while diversifying at the moment, is mostly composed of book and music sales. The fact that IAC has many standalone brands, standalone websites, and standalone domain names, will make the task of integrating the businesses very difficult. Some investors may feel that Mr. Diller has built the largest Internet company just to satisfy his own ego, not to really build any value.

A second possible reason for the depressed price could be attributed to the composition of IAC's Board of Directors. The 11-member board is dominated by people with close business contacts to Barry Diller, including his wife. With a board this beholden to Diller, it is no wonder that IAC pays for half of the maintenance on his Los Angeles home, even though IAC is based in New York.[17]

A third possible reason is that IAC only recently acknowledged that it had used a significant amount of stock to make its most recent acquisitions thereby diluting the stock. When new stock is issued for new acquisitions, it can be likened to cutting a six-slice pie into a 12-slice pie. If you only own two slices, you own two bigger slices when there are only six slices as opposed to 12 slices.

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[15] Laing, Jonathan. "Diller's Goal" Barron's. Chicopee, MA. August 25, 2003. Volume 83 Issue 34 page 13.

[16] Mullaney, Timothy J., and Grover, Ronald, "The Web Mogul Barry Diller never had a secret plan to take over Vivendi. But he does have a not-so-secret plan to rule the Web." Business Week. New York October 13, 2003 Issue 3853 Page 62

[17] Laing, Jonathan. "Diller's Goal" Barron's. Chicopee, MA. August 25, 2003. Volume 83 Issue 34 page 13.

A fourth reason could be the future. While IAC does a great deal of business, each business segment is impacted by macro factors. LendingTree's earnings could decline rapidly if interest rates rise.[18] IAC Travel could slow dramatically if terrorist events occur. IAC Ticketing is approaching the top of the peak of the life cycle. HSN is really underutilized or extraneous depending on the point of view. Citysearch does not really provide a service for which it can charge a fee.

Today, November 11, 2003, is Barry Diller's day to explain his strategy to the investment world. In order to grow IAC's stock price, Mr. Diller will need to grow IAC's earnings. In order to grow earnings, IAC will have to grow revenues or cut costs.

If you were a management consultant to Mr. Diller, what strategy would you recommend? Does the multibrand strategy work? Can the company cross sell between brands? Should IAC be broken up?

[18] It is generally held by the financial markets that fewer consumers will buy homes (and apply for a new mortgage) or refinance mortgages if interest rates increase. From the consumer perspective, the increase in interest rate will cause the consumer's monthly payment to increase. From the business perspective, the decrease in new mortgages or refinancings will result in lower transaction fee volume.

APPENDIX A – NOTES ON BRAND STRATEGIES

In the US consumer goods markets, where consumers are bombarded by advertising and marketing campaigns, a brand name is a powerful weapon. Many consumers have less time to shop and are spending their disposable income more carefully. Established brand names, with their quality image, make the shopping experience easier and faster for many consumers. For manufacturers, brands build consumer loyalty, which translates into repeat business, which should translate into profits.

The fight for a brand to remain the leader in its product category is fierce. Not only do national brand managers have to worry about competition from other national brands, they also have to worry about competition from "private label" or "store-brands." For example, the Tommy Hilfiger sportswear brand competes on a national basis against Polo Ralph Lauren and Nautica, while at the same time competing against private labels such as the Alfani or Club Room labels available only at Macy's, or the Racquet Club label available only at Lord & Taylor.

Competition between national brands and private label brands often lead managers to consider moving their brands into seemingly attractive markets above or below their current positions ("up market or down market"). The questions for managers are, "which is the right avenue for growth" and "what structures should we use to manage our expanding brands?"

Some brand managers will attempt to put the stamp of the brand on everything in the company. For example, the highest profile businesses at most financial institutions carry one name (Citicorp's CitiBank, CitiBank Mastercard, etc.). Other brand managers find that brands are more effective if targeted into specific markets. The chart below shows some brand strategies at major retailers.

Corporate Name	Federated Department Stores, Inc.	May Department Stores Company	Saks Incorporated	InterActiveCorp.
Brand Names	Macy's	Lord & Taylor	Saks Fifth Avenue	Expedia
	Rich's	Filene's	Proffitt's	Hotels.com
	Bloomingdales	Kaufmann's	Younkers	TV Travel Store
	Burdines	Robinson-May	Carson Pirie Scott	Anyway.com
	Bon-Marche	Meier & Frank	Boston Store	Hotwire.com
		Hecht's	Parisian	Classic Custom Vacations
		Strawbridge's	McRae's	Interval World
		Foley's	Herberger's	Home Shopping Network
		Famous-Barr	Off 5th	America's Store
				Ticketmaster
				Match.com
				LendingTree.com
				CitySearch/Cityguide
				Entertainment
				Evite.com

Source(s): Website's (Company's at a glance) for Federated Department Stores Inc.'s, May Department Stores Company's, and Saks Incorporated

APPENDIX B – HISTORY OF CORPORATE NAME CHANGES:

InterActiveCorp's Corporate History

The corporate history of IAC reflects Mr. Diller's quick changes in corporate strategy. InterActiveCorp was incorporated in July of 1986 as Silver King Broadcasting Company, Inc. ("SKBC") as a wholly owned subsidiary of Home Shopping Network, Inc. ("Home Shopping"). In 1992, SKBC ownership was "spun off" into a stand-alone a public company.

On December 19 and 20, 1996, SKBC completed mergers with Savoy Pictures Entertainment, Inc. and Home Shopping (its former parent company), respectively and changed its name to HSN, Inc. Following the two mergers, IAC's principal areas of business were electronic retailing and television broadcasting.

As of December 31, 1997, HSN, Inc. owned a controlling interest in Ticketmaster Group, Inc. ("Ticketmaster"). On March 20, 1998, HSN, Inc. merged with Ticketmaster and subsequently owned 100% of Ticketmaster. On February 12, 1998, HSN, Inc. acquired USA Networks and subsequently owned the cable television networks USA Network and Sci-Fi Channel. In addition, HSN, Inc. owned the domestic television production and distribution businesses of Universal Studios ("USA Networks Studios") from Universal Studios, Inc. ("Universal").

As a result of the USA/Universal acquisitions, and HSN, Inc. once again changed its name to USA Networks, Inc ("USAi") to more accurately reflect its operations. Following the acquisitions, USAi engaged in five principal areas of business:

- Home Shopping, which primarily engaged in the electronic retailing business.
- USA Networks, which operated the USA Network and Sci-Fi Channel cable networks.
- USA Networks Studios, which produced and distributed television programming.
- USA Broadcasting, which owned and operated television stations.
- Ticketmaster, which was the leading provider of automated ticketing services in the U.S.

As the Internet began to become relevant to consumers in 1998 and 1999, Mr. Diller decided to take USAi into a new direction. Instead of focusing on "old media" assets, like television stations, televisions studios, or movie studios, Mr. Diller began to look for "on-line" businesses that provided the opportunity for significant growth.

By February of 2000, Mr. Diller had compiled several "on-line" businesses to go along with the "old media" assets. USAi's principal operating assets included USA Network, Sci-Fi Channel, Studios USA, Home Shopping Network, Ticketmaster, Ticketmaster Online-CitySearch, Inc., Hotel Reservations Network, Internet Shopping Network, USA Films and USA Broadcasting.

USAi was then organized along seven principal areas of business:

- NETWORKS AND TELEVISION PRODUCTION, which included Networks and Studios USA. Networks operated USA Network and Sci-Fi Channel cable networks and Studios USA produced and distributed television programming.

- ELECTRONIC RETAILING, consisting primarily of Home Shopping Network and America's Store, which were engaged in the electronic retailing business.
- TICKETING OPERATIONS, which primarily consisted of Ticketmaster, the leading provider of automated ticketing services in the United States, and Ticketmaster.com, Ticketmaster's exclusive agent for online ticket sales.
- HOTEL RESERVATIONS, consisting of Hotel Reservations Network, a leading consolidator of hotel rooms for resale in the consumer market in the United States.
- INTERNET SERVICES, which included the Internet Shopping Network, USAi's online retailing networks business, and local city guide business.
- FILMED ENTERTAINMENT, which primarily represented USAi's domestic theatrical film distribution and production businesses.
- BROADCASTING, which owned and operated television stations.

In 2001, USAi decided to become a full-time "internet company" and Mr. Diller elected to sell the cable, television, and movie portions of USAi to Vivendi Universal of France for $11.7 billion in cash and stock. With most of the broadcasting assets gone (except Home Shopping Network), the company changed its name from USA Networks, Inc. to USA Interactive, Inc. to reflect the change in strategy. At the time of the divestiture, Mr. Diller publicly vowed to spend around $9 billion on e-commerce acquisitions by 2005. As of December 31, 2003 he spent approximately $10 billion on acquisitions ranging from travel related companies (Expedia, Hotwire) to lending companies (LendingTree) to dating companies (Match.com).

It should come as no surprise that the string of divestitures and acquisitions lead the company to change its name once again. This time, in mid-2003, Mr. Diller changed the company name from USA Interactive, Inc. to InterActiveCorp.

APPENDIX C – ABRIDGED BUSINESS RISKS AS OUTLINED IN SEC Form 10-K:[19]

Declines or disruptions in the travel industry, such as those caused by terrorism, war, bankruptcies or general economic downturns, could reduce our revenues

We depend on the stability of the travel industry and the viability of travel suppliers. Our business is highly sensitive to economic conditions as well as issues that impact travel safety. We could experience a protracted decrease in demand for our travel services due to fears regarding acts of terrorism, breakouts of war, military responses to acts of terrorism and increased costs and reduced operations by airlines due, in part, to new security directives adopted by the Federal Aviation Administration. This decrease in demand, depending on its scope and duration—which we cannot predict at this time—together with any future issues impacting travel safety, could significantly impact our long-term results of operations or financial condition. In addition, in connection with certain events, such as terrorist activity or war, that have the effect of disrupting the existing travel plans of a significant number of our customers, we may incur additional costs if we decide to provide relief to customers by not charging cancellation fees or by refunding the price of tickets that are not used.

Some major airlines, most notably US Airways and the parent company of United Airlines, have sought bankruptcy protection and others may consider bankruptcy relief. As a result of bankruptcy or other financial difficulties, these airlines may reduce their fleets and the number of available flights, which could result in lower travel bookings volumes for us. The financial difficulties facing the airlines increase the risk that airlines may not perform on our contracts with them, including the risk we may not be paid for services provided to them.

Our business relies on our relationships with our travel suppliers and distribution partners. Adverse changes in any of these relationships could reduce the amount of inventory that we are able to offer through our websites. We depend on travel suppliers to enable us to offer our customers comprehensive access to travel services and products. Consistent with industry practices, we currently have few agreements with our travel suppliers obligating them to provide inventory for us to sell through our websites. It is possible that travel suppliers may choose not to make their inventory of services and products available through our distribution channels. Travel suppliers could elect to sell exclusively through other sales and distribution channels or to restrict our access to their inventory. We also depend on travel suppliers for advertising revenues. If our travel suppliers chose not to make their services and products available to us, or not to advertise with us or if we are unable to negotiate acceptable terms with our suppliers, it could significantly decrease the amount or breadth or depth of our inventory of available travel offerings. Of particular note is Orbitz, the airline direct-distribution website owned by American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines and United Air Lines, and Travelweb, an online distributor of hotel rooms owned by Hilton, Hyatt, Mariott, Six Continents and Starwood. Additionally, American Airlines, United Airlines, Northwest Airlines, Continental Airlines, US Airways Group and America West Airlines own a website known as "Hotwire," which offers unpublished special fares on certain carriers. If a substantial number of our suppliers choose to restrict their special inventory solely to the distribution channels that they own, such action may have a material adverse affect on our business.

Efforts by our suppliers to reduce distribution costs, such as a decline in commission rates and fees or the elimination of commissions, could reduce our revenues and margins

A portion of our revenues depends on the commissions and fees paid by travel suppliers for bookings made through our travel service. Generally, we do not have written commission agreements with our hotel suppliers. We generally negotiate commissions and fees with our other travel suppliers. Recently, airlines have cut or eliminated commission levels to travel agents. We cannot assure you that airlines, hotel chains or other travel suppliers will not reduce current industry commission rates further or eliminate commissions entirely, either of which could reduce our revenues and margins.

[19] : www.sec.gov Form 10k filed March 31, 2003. This entire appendix C was sourced directly from the 10-K filing.

A portion of our revenues depends on payments from our Global Distribution System (GDS) partners as consideration for fees received by them from suppliers for transactions generated through one of our five distribution channels. Generally, we have written agreements with respect to these payments from our GDS partners. Nevertheless, there can be no assurance that our GDS partners will not reduce these payments or will not eliminate them entirely over time, either of which could reduce our revenues and margins. In this regard, on November 12, 2002, the Department of Transportation issued a Notice of Proposed Rulemaking regarding its existing rules governing certain GDS's known as airline computer reservation systems. These proposed rules expressly seek to give airlines more flexibility in bargaining with the companies that run these computer reservation systems. To the extent that these proposed rules become final, any of our GDS partners could negotiate to receive less compensation from an airline, which in turn could cause that GDS partner to reduce the segment fee payments that it will pay Expedia for sales of the relevant airline's tickets.

The current downturn in the airline industry has also caused our airline travel suppliers and our GDS partners to focus on reducing all costs. Airlines have reduced or eliminated commission payments to certain travel agents, airlines and GDS in an effort to reduce distribution costs. Future efforts to further reduce such payments could adversely impact our revenues. It is possible that we may be unable to reach distribution agreements with one or more major airlines in the future, which could result in flights on such airlines not being available on our websites. It is also possible that we may be subject to terms that adversely impact our margins on air travel revenue.

Similarly, many of our hotel partners face challenging market conditions brought on by reduced demand, pricing softness and lower occupancy levels. In response to these challenges, our hotel partners are increasingly focused on maintaining profitability by controlling expenses, including distribution costs. As a result, we may from time to time be asked by a certain hotel partner to renegotiate commercial terms of our agreement with them. We treat each of these conversations on a case by case basis in consideration of a variety of economic factors and with equal emphasis on maintaining healthy long-term relationship with our hotel partners going forward.

We compete with a variety of companies with respect to each product or service we offer

These competitors include: Internet travel agents such as Travelocity.com, Orbitz.com and American Express Interactive, Inc.; local, regional, national and international traditional travel agencies; consolidators and wholesalers of airline tickets, hotels and other travel products, including Hotwire.com, Cheaptickets.com and Priceline.com; airlines, hotels, rental car companies, cruise operators and other travel service providers, whether working individually or collectively, some of which are suppliers to our websites; and operators of travel industry reservation databases, such as Sabre and Pegasus.

In addition, some of the services provided by other USA companies such as Hotels.com are similar to ours and to that extent, business could be diverted away from Expedia.

In addition to the traditional travel agency channel, many travel suppliers also offer their travel services as well as third-party travel services directly to consumers through their own websites or by telephone. These travel suppliers include many suppliers with which we do business. As the demand for online travel services grows, we believe that travel suppliers, traditional travel agencies, travel industry information providers and other companies will increase their efforts to develop services that compete with our services by selling inventory from a wide variety of suppliers. We cannot assure you that our online operations will compete successfully with any current or future competitors online or offline.

Because we participate in an intensely competitive market place against a variety of well-capitalized, scaled offline and online travel distributors, we believe that maintaining and enhancing the Expedia brand is a critical. Our brand is a central piece of our efforts to attract and expand our online traffic as well as compete with traditional travel agencies and other travel service providers. The vast number of travel service providers that offer competing services increases the importance of maintaining and enhancing our brand recognition. Promotion of the Expedia brand will depend largely on our success in providing a high-quality experience supported by a high level of customer service. Some of our competitors may be able to secure services and products from travel suppliers on more favorable terms. In addition, the introduction of new technologies and the expansion of existing technologies may increase competitive pressures. Increased competition may result in reduced operating margins, as well as loss of market share and brand recognition. We cannot assure you that we will be able to compete successfully against current and future competitors. Competitive pressures faced by us could have a material adverse effect on our business, operating results and financial condition.

Interruptions in service from third parties could impair the quality of our service

We rely on third-party computer systems and third-party service providers, including the computerized global distribution systems of the airline, hotel and car rental industries to make airline ticket, hotel room and car rental reservations and credit card verifications and confirmations.

Currently, a majority of our transactions are processed through two GDS partners: Worldspan, L.P. and Pegasus Solutions, Inc. We rely on TRX, Inc. and PeopleSupport, Inc. to provide a significant portion of our telephone and e-mail customer support, as well as to print and deliver airline tickets as necessary. Any interruption in these third-party services or deterioration in their performance could impair the quality of our service. If our arrangement with any of these third parties is terminated, we may not find an alternate source of systems support on a timely basis or on commercially reasonable terms. In particular, any migration from the Worldspan system could require a substantial commitment of time and resources and harm our business.

We rely on a third party to provide our hosting services. We do not maintain fully redundant systems or alternative providers of hosting services. As a result, a system interruption or shutdown at the hosting facility that we use could result in lengthy interruptions in our services. Our business interruption insurance may not be sufficient to compensate us for losses that may occur.

GLOSSARY OF HIGHLIGHTED TERMS:

Market Cap: The value of a Company as determined by the market price of the Company's stock multiplied times the number of shares outstanding. If Company A and Company B have the same number of shares outstanding and the market capitalization of Company A is higher than that of Company B, the stock market has indicated that Company A has a higher value than Company B. Higher market capitalization is highly desirable.

52 Week EPS (Earnings Per Share): The portion of a company's profit allocated to each outstanding share of common stock. For example, if Company A had $10 million in net earnings for a 52 week period and 5 million shares outstanding, Company A would have a 52 week EPS of $2.00 per share.

Market Cap to Sales: The value of a Company as determined by the market capitalization of the Company divided by the Company's sales. If Company A has a Market Capitalization of $200 million and sales of $100 million, the stock market has indicated that it is willing to pay $2 for each $1 in sales.

Year ahead estimated P/E: The P/E ratio using a forecast of the Company's earnings for the year ahead.

Total 52 Week Return: The percent change in stock price from one year to the next.

Price/Earnings Multiple (Also known as the "P/E Ratio" or the "Multiple"): The price of a stock divided by its Earnings Per Share. The P/E Ratio tells investors how much the stock market is paying for the Company's earnings power. The higher the P/E the more investors are paying for the earnings.

Acquisitions: One Company purchasing another.

Conglomerate: A Company comprised of many different individual businesses. General Electric, which makes light bulbs, jet engines, and nuclear reactor parts while also operating a financing company, is an example of a conglomerate.

Spun Off: One Company sells a division of itself in an initial public offering for that division.

Divestitures: The outright sale of an asset or a business. Conglomerates typically divest business lines that no longer fit with the overall business strategy. For example, General Electric began to sell its insurance businesses when management felt that insurance was too risky.

Fulfillment: In business, this term refers to the act of taking an order from a customer, *physically* sourcing the product on behalf of the customer, and then ultimately *physically* delivering the product to the customer. Amazon.com fulfills orders for books. Travelocity does not fulfill orders for hotel rooms, rather it arranges orders for hotel rooms.

Amortization: An accounting procedure that also a company to recognize the value of a major purchase over time.

Inventory: In this case, inventory refers to the list of all assets that can be sold by the Company. For example, if the Company has contracted with Hilton Hotels to sell 50 rooms at the Hilton

Hotel in Las Vegas for August 2004, then the Company claims to have a hotel inventory of 50 rooms for that date

Trades at a discount: A description of stock market based on P/E ratio. If Company A has a higher P/E than Company B, then Company B is said to *trade at a discount* to Company A. If Company A has a higher P/E than Company B, then Company A is said to *trade at a premium* to Company A.

Board of Directors: Group of individuals elected by the stockholders to appoint senior managers, form certain committees, and declare dividends.

Diluting the stock: The effect on the value of the Company's stock if more stock was issued. For example, if you owned 10 shares of Company A, and Company A had 50 shares of stock outstanding, then you would own 20% of Company A. If Company A increased the number of outstanding shares from 50 to 100 shares, and you still owned 10 shares, then you would own 10% of the Company.

Macro factors: Economic factors that occur outside of the control of the Company.