

As filed with the Securities and Exchange Commission on July 24, 2002

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-K/A

(Amendment No. 1)

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

For the Fiscal Year Ended December 31, 2001

### USA INTERACTIVE

(Exact name of registrant as specified in its charter)

Commission File No. 0-20570

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**59-2712887**  
(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)

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**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

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

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.

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

Common Stock	340,633,475
Class B Common Stock	63,033,452
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Total	403,666,927
Common Stock issuable upon exchange of outstanding exchangeable subsidiary equity	361,152,845
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Total outstanding Common Stock, assuming full exchange of Class B Common Stock and exchangeable subsidiary equity	764,819,772
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The aggregate market value of the voting stock held by non-affiliates of the Registrant as of February 15, 2002 was \$8,110,122,614. 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 February 15, 2002, of all equity securities of subsidiaries of the Registrant exchangeable for Common Stock of the Registrant, the Registrant would have outstanding 764,819,772 shares of Common Stock with an aggregate market value of \$23,135,798,101.

### Documents Incorporated By Reference:

Portions of the Registrant's proxy statement for its 2002 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

### EXPLANATORY NOTE

The registrant hereby amends and restates in its entirety Item 6, Selected Financial Data, and Item 8, Consolidated Financial Statements and Supplementary Data, 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. 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; Studios USA, which produces and distributes television programming; and USA Films, which produces and distributes films. The consolidated financial statements included in this Amendment to the Annual Report on Form 10-K/A have been reclassified to present the results of operations and financial position of USA Entertainment as discontinued operations. In addition, due to a mathematical error, the pro forma diluted earnings (loss) for the year ended December 31, 2001 presented in Note 12 to the Consolidated Financial Statements have been adjusted from \$0.75 to \$0.49.

2

### Item 6. Selected Financial Data

The following table presents selected historical financial data of USA for each of the years in the five year period ended December 31, 2001. This data was derived from USA's audited consolidated financial statements and reflects the operations and financial position of USA at the dates and for the periods indicated. The information in this table should be read with the financial statements and accompanying notes and other financial data pertaining to USA included herein. In August 2001, the Company completed its previously announced sale of all of the capital stock of certain USA Broadcasting ("USAB") subsidiaries that own 13 full-power television stations and minority interests in four additional full-power stations to Univision Communications Inc. ("Univision"). 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. On May 7, 2002, USA completed its transaction with Vivendi Universal S.A. ("Vivendi") in which USA's Entertainment Group, consisting of USA Cable, Studios USA, and USA Films, was contributed to Vivendi Universal Entertainment, a new joint venture controlled by Vivendi. The financial position and results of operations of USAB and USA Entertainment Group have been presented as discontinued operations in the following table.

	Year Ended December 31,				
	1997(1)	1998(2)(3)	1999(4)	2000(5)	2001(6)
	(Dollars in thousands, except per share data)				
<b>Statements of Operations Data:</b>					
Net Revenues	\$ 1,377,145	\$ 1,674,211	\$ 2,001,108	\$ 2,964,612	\$ 3,468,860
Operating Profit (loss)	105,753	59,711	(48,842)	(349,746)	(216,423)
Earnings (loss) from continuing operations	34,209	(96,585)	(69,212)	(172,398)	(186,799)
Earnings (loss) before cumulative effect of accounting change	13,061	(83,603)	(27,631)	(147,983)	392,795
Net earnings (loss)	13,061	(83,603)	(27,631)	(147,983)	383,608
Basic Earnings (loss) per common share from continuing operations:	0.16	(.34)	(0.21)	(0.48)	(0.50)
Diluted Earnings (loss) per common share from continuing operations:	0.15	(.34)	(0.21)	(0.48)	(0.50)
Basic Earnings (loss) per common share before cumulative effect of accounting change:	0.06	(.29)	(.08)	(0.41)	1.05
Diluted Earnings (loss) per common share before cumulative effect of accounting change:	0.06	(.29)	(.08)	(0.41)	0.61
Basic Earnings(loss) per common share:	0.06	(.29)	(.08)	(0.41)	1.03
Diluted Earnings (loss) per common share:	0.06	(.29)	(.08)	(0.41)	0.60
<b>Balance Sheet Data (end of period):</b>					
Working Capital	\$ 60,941	\$ 324,280	\$ 381,046	\$ 355,157	\$ 1,380,936
Total Assets	2,670,796	3,014,729	5,151,160	5,646,290	6,539,850
Long-term obligations, net of current maturities	448,346	775,683	573,056	551,766	544,372
Minority Interest	372,223	114,121	742,365	908,831	706,688
Stockholders' equity	1,447,354	2,571,405	2,769,729	3,439,871	3,945,501
<b>Other Data:</b>					
Net cash provided by (used in):					
Operating activities	\$ 47,673	\$ 116,566	\$ 77,760	\$ 87,321	\$ 298,335
Investing activities	(82,293)	(1,190,575)	(468,318)	(408,016)	35,052
Financing activities	108,050	1,452,322	100,204	58,163	56,256
Discontinued operations	—	(25,642)	267,651	86,266	348,174
Effect of exchange rate changes	—	(1,501)	(123)	(2,687)	(3,663)
Adjusted EBITDA	198,373	207,194	190,104	276,723	297,927

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating profit plus (1) depreciation and amortization, (2) amortization of cable distribution fees (3) amortization of non-cash distribution and marketing expense and (4) disengagement expenses. Adjusted EBITDA is presented here as a management tool and as a valuation methodology. Adjusted EBITDA does not purport to represent cash provided by operating

activities. Adjusted EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Adjusted EBITDA may not be comparable to calculations of similarly titled measures presented by other companies.

	Twelve Months Ended December 31,				
	1997	1998	1999	2000	2001
Operating profit (loss)	\$ 105,753	\$ 59,711	\$ (48,842)	\$ (349,746)	\$ (216,423)
Depreciation and amortization	71,231	116,586	205,843	565,742	432,139
Amortization of cable distribution fees	19,261	22,089	26,680	36,322	43,975
Amortization of non-cash distribution fees, marketing, and compensation expense	2,128	8,808	6,423	24,405	34,184
Disengagement expenses	—	—	—	—	4,052
Adjusted EBITDA	\$ 198,373	\$ 207,194	\$ 190,104	\$ 276,723	\$ 297,927

- (1) The consolidated statement of operations data include the operations of Ticketmaster since the acquisition by USA of its controlling interest in Ticketmaster on July 17, 1997.
- (2) The consolidated statement of operations data include the operations of USA Networks and Studios USA since their acquisition by USA from Universal on February 12, 1998 and Citysearch since its acquisition by USA on September 28, 1998. For more information about the Ticketmaster Online-Citysearch transaction, see "Corporate History."
- (3) Net earnings for the year ended December 31, 1998 include a pre-tax gain of \$74.9 million related to USA's sale of its Baltimore television station during the first quarter of 1998 and a pre-tax gain of \$109.0 million related to the Citysearch transaction during the fourth quarter of 1998.
- (4) The consolidated statement of operations data include the operations of Hotel Reservations Network since its acquisition by USA on May 10, 1999 and the operations of October Films and the domestic film distribution and development businesses of Universal, which was previously operated Polygram Filmed Entertainment, referred to as USA Films, since their acquisition by USA on May 28, 1999. Net earnings for the year ended December 31, 1999 includes a pre-tax gain of \$89.7 million related to the sale of securities.
- (5) Includes a pre-tax gain of \$104.6 million related to the Styleclick transaction, a pre-tax gain of \$3.7 million related to the Hotels.com initial public offering, and a pre-tax charge of \$145.6 million related to impairment of Styleclick goodwill.
- (6) Includes a gain of \$517.8 million, net of tax, related to the sale of capital stock of certain USA Broadcasting subsidiaries and an after-tax expense of \$9.2 million related to the cumulative effect of adoption as of January 1, 2001 of SOP 00-2, Accounting By Producers or Distribution of Films.

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

**REPORT OF INDEPENDENT AUDITORS**

The Board of Directors and Stockholders  
USA Interactive

We have audited the accompanying consolidated balance sheets of USA Interactive (formerly USA Networks, Inc.) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 USA Interactive and subsidiaries at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, 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.

New York, New York  
January 29, 2002, except for  
Note 21 as to which the  
Date is July 23, 2002

**USA INTERACTIVE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2001	2000	1999
(In Thousands, Except Per Share Data)			
Product sales	\$ 1,938,979	\$ 1,799,932	\$ 1,370,790
Service revenue	1,529,881	1,164,680	630,318
<b>Net revenue</b>	<b>3,468,860</b>	<b>2,964,612</b>	<b>2,001,108</b>
<b>Operating costs and expenses:</b>			
Cost of sales—product sales	1,287,630	1,178,369	900,896
Cost of sales — service revenue	1,043,808	821,636	417,242
Selling and marketing	441,544	350,178	265,181
General and administrative	320,844	268,233	184,429
Other operating costs	81,159	69,473	43,256
Amortization of cable distribution fees	43,975	36,322	26,680
Amortization of non-cash distribution and marketing expense	26,384	11,665	—
Amortization of non-cash compensation expense	7,800	12,740	6,423
Depreciation and amortization	432,139	565,742	205,843
<b>Total operating costs and expenses</b>	<b>3,685,283</b>	<b>3,314,358</b>	<b>2,049,950</b>
<b>Operating loss</b>	<b>(216,423)</b>	<b>(349,746)</b>	<b>(48,842)</b>
<b>Other income (expense):</b>			
Interest income	26,994	38,753	26,897
Interest expense	(46,179)	(46,119)	(56,592)
Gain on sale of subsidiary stock	—	108,343	—
Loss in unconsolidated subsidiaries and other	(51,849)	(59,326)	(4,269)
	(71,034)	41,651	(33,964)
<b>Loss from continuing operations before income taxes and minority interest</b>	<b>(287,457)</b>	<b>(308,095)</b>	<b>(82,806)</b>
Income tax expense	(2,450)	(43,850)	(28,558)
Minority interest	103,108	179,547	42,152
<b>Loss from Continuing Operations</b>	<b>(186,799)</b>	<b>(172,398)</b>	<b>(69,212)</b>
Discontinued operations, net of tax	61,747	24,415	41,581
Gain on disposal of Broadcasting stations, net of tax	517,847	—	—
<b>Earnings (loss) before cumulative effect of accounting change, net of tax</b>	<b>392,795</b>	<b>(147,983)</b>	<b>(27,631)</b>
Cumulative effect of accounting change from discontinued operations, net of tax	(9,187)	—	—
<b>Net Earnings (Loss)</b>	<b>\$ 383,608</b>	<b>\$ (147,983)</b>	<b>\$ (27,631)</b>
<b>Loss per share from continuing operations:</b>			
Basic loss per common share	\$ (.50)	\$ (.48)	\$ (.21)
Diluted loss per common share	\$ (.50)	\$ (.48)	\$ (.21)
<b>Earnings (Loss) per share, before cumulative effect of accounting change:</b>			
Basic earnings (loss) per common share	\$ 1.05	\$ (.41)	\$ (.08)
Diluted earnings (loss) per common share	\$ .61	\$ (.41)	\$ (.08)
<b>Net Earnings (Loss) per Share:</b>			
Basic earnings (loss) per common share	\$ 1.03	\$ (.41)	\$ (.08)
Diluted earnings (loss) per common share	\$ .60	\$ (.41)	\$ (.08)

## USA INTERACTIVE AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

## ASSETS

	December 31,	
	2001	2000
(In Thousands, Except Share Data)		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 978,377	\$ 244,223
Restricted cash equivalents	9,107	2,021
Marketable securities	171,464	127,102
Accounts and notes receivable, net of allowance of \$16,252 and \$11,734, respectively	276,716	265,998
Receivable from sale of USAB	589,625	—
Inventories, net	197,354	227,920
Deferred tax assets	39,946	32,842
Other current assets, net	84,727	47,911
Net current assets of discontinued operations	38,343	86,517
	<u>2,385,659</u>	<u>1,034,534</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Computer and broadcast equipment	349,145	303,123
Buildings and leasehold improvements	125,491	118,054
Furniture and other equipment	91,292	73,617
Land	15,665	15,658
Projects in progress	45,754	44,406
	<u>627,347</u>	<u>554,858</u>
Less accumulated depreciation and amortization	(228,360)	(145,908)
	<u>398,987</u>	<u>408,950</u>
<b>OTHER ASSETS</b>		
Goodwill	3,075,831	3,089,182
Intangible assets, net	218,651	280,666
Cable distribution fees, net	158,880	159,117
Long-term investments	64,731	48,949
Notes and accounts receivable, net of current portion (\$99,819 and \$22,575, respectively, from related parties)	108,095	27,305
Advance to Universal	39,265	95,220
Deferred charges and other, net	89,751	68,711
Net long-term assets of discontinued operations	—	433,656
	<u>\$ 6,539,850</u>	<u>\$ 5,646,290</u>

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

## LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	2001	2000
(In Thousands, Except Share Data)		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term obligations	\$ 33,519	\$ 24,748
Accounts payable, trade	309,609	251,357
Accounts payable, client accounts	102,011	97,687
Cable distribution fees payable	32,795	33,598
Deferred revenue	75,256	63,999



Issuance of common stock upon exercise of stock options	37,341	46	—	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	—	887,049	—	—	—	—	—
Issuance of stock in connection with other transactions	11,950	4	—	11,946	—	—	—	—	—
Purchase of Treasury Stock	(129,907)	(57)	—	—	—	—	(129,850)	—	—
<b>Balance at December 31, 2000</b>	<b>\$ 3,439,871</b>	<b>\$ 3,055</b>	<b>\$ 630</b>	<b>\$ 3,793,764</b>	<b>\$ (202,341)</b>	<b>\$ (10,825)</b>	<b>\$ (139,414)</b>	<b>\$ —</b>	<b>\$ (4,998)</b>
Comprehensive income:									
Net Income for the year ended December 31, 2001	383,608	—	—	—	383,608	—	—	—	—
Decrease in unrealized losses in available for sale securities	5,600	—	—	—	—	5,600	—	—	—
Foreign currency translation	(6,380)	—	—	—	—	(6,380)	—	—	—
<b>Comprehensive Income</b>	<b>382,828</b>								
Issuance of common stock upon exercise of stock options	80,931	90	—	80,841	—	—	—	—	—
Income tax benefit related to stock options exercised	38,439	—	—	38,439	—	—	—	—	—
Issuance of stock in connection with other transactions	5,360	3	—	5,357	—	—	—	—	—
Purchase of Treasury Stock	(1,928)	(1)	—	—	—	—	(1,927)	—	—
<b>Balance at December 31, 2001</b>	<b>\$ 3,945,501</b>	<b>\$ 3,147</b>	<b>\$ 630</b>	<b>\$ 3,918,401</b>	<b>\$ 181,267</b>	<b>\$ (11,605)</b>	<b>\$ (141,341)</b>	<b>\$ —</b>	<b>\$ (4,998)</b>

Accumulated other comprehensive income is comprised of unrealized (losses) gains on available for sale securities of \$39, \$(5,561) and \$6,397 at December 31, 2001, 2000 and 1999, respectively and foreign currency translation adjustments of \$(11,644), \$(5,264) and \$(1,624) at December 31, 2001, 2000 and 1999, respectively.

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

## USA INTERACTIVE AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2001	2000	1999
	(In Thousands)		
<b>Cash flows from operating activities:</b>			
Loss from continuing operations:	\$ (186,799)	\$ (172,398)	\$ (69,212)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	432,139	565,742	205,843
Amortization of cable distribution fees	43,975	36,322	26,680
Amortization of deferred financing costs	1,491	3,778	5,035
Non-cash distribution and marketing	26,384	11,665	—
Deferred income taxes	12,253	21,357	10,890
Equity in (earnings) losses of unconsolidated affiliates and other	48,977	58,333	(1,806)
Gain on sale of subsidiary stock	—	(108,343)	—
Non-cash interest income	(3,729)	(8,735)	(671)
Non-cash stock compensation	7,800	12,740	6,423
Minority interest	(103,108)	(179,547)	(42,152)
Changes in current assets and liabilities:			
Accounts receivable	18,844	(64,925)	(26,328)
Inventories	31,128	(44,892)	(36,838)
Accounts payable	38,914	27,468	35,504
Accrued liabilities and deferred revenue	(25,119)	(837)	14,606
Increase in cable distribution fees	(47,393)	(64,876)	(42,887)
Other, net	2,578	(5,531)	(7,327)
<b>Net Cash Provided By Operating Activities</b>	<b>298,335</b>	<b>87,321</b>	<b>77,760</b>
<b>Cash flows from investing activities:</b>			
Acquisitions, net of cash acquired	(198,641)	(125,985)	(144,451)
Capital expenditures	(130,536)	(160,423)	(101,697)
Advance to Universal	—	—	(200,000)
Recoupment of advance to Universal	59,821	77,330	42,951
Increase in long-term investments and notes receivable	(122,413)	(33,890)	(69,646)
Purchase of marketable securities	(51,977)	(134,895)	—
Proceeds from sale of broadcast stations	510,374	—	—

Payment of merger and financing costs	—	(18,758)	(4,765)
Other, net	(31,576)	(11,395)	9,290
<b>Net Cash Provided By (Used in) Investing Activities</b>	<b>35,052</b>	<b>(408,016)</b>	<b>(468,318)</b>
<b>Cash flows from financing activities:</b>			
Borrowings	23,086	64,840	—
Principal payments on long-term obligations	(22,331)	(99,684)	(256,217)
Purchase of treasury stock	(1,928)	(129,907)	(8,933)
Payment of mandatory tax distribution to LLC partners	(17,369)	(68,065)	(28,830)
Proceeds from sale of subsidiary stock	12,234	93,189	4,268
Proceeds from issuance of common stock and LLC shares	80,932	210,642	422,544
Other, net	(18,368)	(12,852)	(32,628)
<b>Net Cash Provided By Financing Activities</b>	<b>56,256</b>	<b>58,163</b>	<b>100,204</b>
<b>Net Cash Provided By Discontinued Operations</b>	<b>348,174</b>	<b>86,266</b>	<b>267,651</b>
Effect of exchange rate changes on cash and cash equivalents	(3,663)	(2,687)	(123)
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>734,154</b>	<b>(178,953)</b>	<b>(22,826)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>244,223</b>	<b>423,176</b>	<b>446,002</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 978,377</b>	<b>\$ 244,223</b>	<b>\$ 423,176</b>

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

10

## USA INTERACTIVE AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1—ORGANIZATION

##### GENERAL

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 (the "VUE transaction") and the results of operations and statement of position of USA Entertainment is now presented as a discontinued operation. See Note 21 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 below for further discussion.

On January 31, 2001, Ticketmaster Online-Citysearch, Inc. and Ticketmaster Corporation, both of which are subsidiaries of USA, completed a transaction which combined the two companies. The combined company has been renamed "Ticketmaster." Under the terms of the transaction, USA contributed Ticketmaster Corporation to Ticketmaster Online-Citysearch and received 52 million Ticketmaster Online-Citysearch Class B Shares. The Ticketmaster Class B common stock is quoted on the Nasdaq Stock Market.

In August 2001, the Company completed its previously announced sale of all of the capital stock of certain USA Broadcasting ("USAB") subsidiaries that own 13 full-power television stations and minority interests in four additional full-power stations to Univision Communications Inc. ("Univision"). Total cash proceeds were \$1.1 billion, of which \$510.4 million was collected in fiscal year 2001 and \$589.6 million in January 2002. The gain on the sale of the stations was \$517.8 million, net of tax of \$377.4 million. The majority of the stations sold are located in the largest markets in the country and aired HSN on a 24-hour basis. The operations of USAB have been presented in the accompanying financial statements as discontinued operations.

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 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.



## SUBSEQUENT EVENTS (UNAUDITED)

### ***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 receive USA securities an aggregate of 20.6 million shares of USA common stock, 13.1 million shares of \$50 face value 1.99% cumulative convertible preferred stock of USA and 14.6 million USA warrants. Expedia will continue to be traded on Nasdaq under the symbol "EXPE," the USA cumulative preferred stock trades on OTC under the symbol "USAIP" and the USA warrants trade on Nasdaq under the symbol "USAIW."

Pursuant to the terms of the USA/Expedia transaction documents, Microsoft Corporation, which beneficially owned 33,722,710 shares of Expedia common stock, elected to exchange all of its Expedia common stock for USA securities in the merger. Expedia shareholders who did not receive USA securities in the transaction retained their Expedia shares and received for each Expedia share held 0.1920 of a new Expedia warrant.

## **NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Consolidation**

The consolidated financial statements include the accounts of the Company and all wholly-owned and voting-controlled subsidiaries. The Company consolidates USANi LLC based upon a Governance Agreement and related agreements allowing the Company to control 100% of the voting interest. USANi LLC was formed in connection with the acquisition of USA Networks as well as the domestic television production and distribution businesses of Universal Studios (the "Universal Transaction"). The documents related to this transaction are constructed with the intent that the businesses held by USANi LLC would be operated in substantially the same manner as they would be if the Company held them directly through wholly owned subsidiaries. The Company consolidates HSN-Germany based upon a Pooling Agreement allowing for the Company to elect a majority of the Board of Directors and to control the operations of HSN-Germany. Significant intercompany transactions and accounts have been eliminated.

Investments in which the Company owns a 20%, but not in excess of 50%, interest and where it can exercise significant influence over the operations of the investee, are accounted for using the equity method. In addition, partnership interests are recorded using the equity method. All other investments are accounted for using the cost method. The Company periodically evaluates the recoverability of investments recorded under the cost method and recognizes losses if a decline in value is determined to be other than temporary.

### ***Electronic Retailing***

Revenues from Home Shopping primarily consist of merchandise sales and are reduced by incentive discounts and sales returns to arrive at net sales. Revenues for domestic sales are recorded for credit card sales upon transaction authorization, which occurs only if the goods are in stock, and for

12

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check sales upon receipt of customer payment, which does not vary significantly from the time goods are shipped. Revenues for international sales are recorded upon shipment. Home Shopping's sales policy allows merchandise to be returned at the customer's discretion within 30 days of the date of delivery. Allowances for returned merchandise and other adjustments are provided based upon past experience.

### ***Ticketing***

Revenue from Ticketmaster and Ticketmaster.com primarily consists of revenue from ticketing operations which is recognized as tickets are sold, as the Company acts as agent in these transactions.

### ***Hotel Reservations***

Charges for hotel accommodations are billed to customers in advance. The related payments are included in deferred revenue and recognized as income at the conclusion of the customer's stay at the hotel, as the Company acts as merchant in these transactions.

The Company offers rooms that are contracted for in advance or are prepaid. Unsold contracted rooms may be returned by the Company based on a cancellation period, which generally expires before the date the customer may cancel the hotel reservation. Customers are subject to a penalty for all cancellations or changes to the reservation. The Company bears the risk of loss for all prepaid rooms and rooms cancelled by a customer subsequent to the period in which the Company can return the unsold rooms. To date, the Company has not incurred significant losses under the room contracts with hotels.

### ***Other***

Revenues from all other sources are recognized either upon delivery or when the service is provided.

### **Merchandise Inventories, Net**

Merchandise inventories are valued at the lower of cost or market, cost being determined using the first-in, first-out method. Cost includes freight, certain warehouse costs and other allocable overhead. Market is determined on the basis of net realizable value, giving consideration to obsolescence and other factors. Merchandise inventories are presented net of an inventory carrying adjustment of \$42.5 million and \$38.8 million at December 31, 2001 and 2000, respectively.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash and short-term investments. Short-term investments consist primarily of U.S. Treasury Securities, U.S. Government agencies and certificates of deposit with original maturities of less than 91 days.

## Property, Plant and Equipment

Property, plant and equipment, including significant improvements, are recorded at cost. Repairs and maintenance and any gains or losses on dispositions are included in operations.

13

Depreciation and amortization is provided for on a straight-line basis to allocate the cost of depreciable assets to operations over their estimated service lives.

Asset Category	Depreciation/Amortization Period
Computer and broadcast equipment	3 to 13 Years
Buildings	30 to 40 Years
Leasehold improvements	4 to 20 Years
Furniture and other equipment	3 to 10 Years

Depreciation and amortization expense on property, plant and equipment was \$137.6 million, \$105.4 million and \$51.7 million for the years ended December 31, 2001, 2000 and 1999, respectively.

## Long-Lived Assets Including Intangibles

The Company's accounting policy regarding the assessment of the recoverability of the carrying value of long-lived assets, including goodwill and other intangibles and property, plant and equipment, is to review the carrying value of the assets if the facts and circumstances suggest that they may be impaired. If this 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. See below under "New Accounting Pronouncements" for further information related to goodwill and other intangible assets. The Company amortizes goodwill and other intangible assets over their estimated useful lives, which range from 3 to 40 years for goodwill and 1 to 5 years for intangibles.

## Cable Distribution Fees

Cable distribution fees relate to upfront fees paid in connection with multi-year cable contracts for carriage of Home Shopping's programming. These fees are amortized to expense on a straight line basis over the terms of the respective contracts.

## Advertising

Advertising costs are primarily expensed in the period incurred. Advertising expense for the years ended December 31, 2001, 2000 and 1999 was \$86.8 million, \$63.8 million and \$33.8 million, respectively.

## Income Taxes

The Company accounts for income taxes under the liability method, and deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

## Earnings (Loss) Per Share

Basic earnings per share ("Basic EPS") excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") reflects the potential dilution that could occur if stock options and other

14

commitments to issue common stock were exercised resulting in the issuance of common stock that then shares in the earnings of the Company.

## Stock-Based Compensation

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."

## 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 HSN-Germany since its consolidation as of January 1, 2000.

## Foreign Currency Translation

The financial position and operating results of all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses, which have not been material, are included as a component of accumulated other comprehensive income (loss) in accumulated deficit.

## Issuances of Subsidiary Stock

The Company accounts for issuances of stock by a subsidiary via income statement recognition, recording income or losses as non-operating income/ (expense). During the year ended December 31, 2000, the Company recorded a gain of \$108.3 million related to the issuance of subsidiary stock. See Note 3 for further discussion.

## **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.

15

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## **New Accounting Pronouncements**

### ***Goodwill and Other Intangible Assets***

Effective January 1, 2002, all calendar year companies will be required to adopt 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. The rules are expected to reduce USA's annual amortization by approximately \$215 million. See Note 24 for further discussion.

## **Reclassifications**

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the 2001 presentation.

## **Discontinued Operations**

### ***Revenues—Cable and Studios***

Television production revenues are recognized as completed episodes are delivered. Generally, television programs are first licensed for network exhibition and foreign syndication, and subsequently for domestic syndication, cable television and home video. Certain television programs are produced and/or distributed directly for initial exhibition by local television stations, advertiser-supported cable television, pay television and/or home video. Television production advertising revenues (*i.e.*, sales of advertising time received by Studios USA in lieu of cash fees for the licensing of program broadcast rights to a broadcast station ("barter syndication")) are recognized upon both the commencement of the license period of the program and the sale of advertising time pursuant to non-cancelable agreements, provided that the program is available for its first broadcast. Foreign minimum guaranteed amounts are recognized as revenues on the commencement date of the license agreement, provided the program is available for exhibition.

USA Cable advertising revenue is recognized in the period in which the advertising commercials are aired on the cable networks. Certain contracts with advertisers contain minimum commitments with respect to advertising viewership. In the event that such minimum commitments are not met, the contracts require additional subsequent airings of the advertisement. As a result, provisions are recorded against advertising revenues for audience under deliveries ("makegoods") until such subsequent airings are conducted. Affiliate fees are recognized in the period during which the programming is provided.

## **Film Costs**

Film costs consist of direct production costs and production overhead, less accumulated amortization. Prior to the adoption of SOP 00-2 on January 1, 2001 (see below for further information), development roster (and related costs), abandoned story and development costs were charged to production overhead. Film costs are stated at the lower of unamortized cost or estimated net realizable value on a production-by-production basis.

Generally, the estimated ultimate costs of completed film costs are amortized, and participation expenses are accrued, for each production in the proportion that current period revenue recognized bears to the estimated future revenue to be received from all sources. Amortization and accruals are

16

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made under the individual film forecast method. Estimated ultimate revenues and costs are reviewed quarterly and revisions to amortization rates or write-downs to net realizable value are made as required.

Film costs, net of amortization, are classified as non-current assets.

## **Program Rights**

License agreements for program material are accounted for as a purchase of program rights. The asset related to the program rights acquired and the liability for the obligation incurred are recorded at their net present value when the license period begins and the program is available for its initial broadcast. The asset is amortized primarily based on the estimated number of airings. Amortization is computed generally on the straight-line basis as programs air; however, when management estimates that the first airing of a program has more value than subsequent airings, an accelerated method of amortization is used. Other costs related to programming, which include program assembly, commercial integration and other costs, are expensed as incurred. Management periodically reviews the carrying value of program rights and records write-offs, as warranted, based on changes in programming usage.

## **Advertising Barter Transactions**

Barter transactions represent the exchange of commercial air-time for programming, merchandise or services. The transactions are recorded at the estimated fair market value of the asset or services received or given in accordance with Emerging Issues Task Force Issue No. 99-17, "Accounting for Advertising Barter Transactions." Barter revenue for the year ended December 31, 2001 was \$42.2 million. Barter revenues for the year ended December 31, 2000 and 1999 are not material to USA's statement of operations.

### New Accounting Pronouncements—*Film Accounting*

The Company adopted SOP 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2") during the twelve months ended December 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 expense of \$9.2 million. The expense is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

### NOTE 3—BUSINESS ACQUISITIONS

The Company has made numerous acquisitions during the reporting periods. Below is a discussion of each significant acquisition.

17

#### Styleclick Transaction

On July 27, 2000, USA and Styleclick.com Inc., an enabler of e-commerce for manufacturers and retailers, completed the merger of Internet Shopping Network, a subsidiary of USA, and Styleclick.com (the "Styleclick Transaction"). The entities were merged with a new company, Styleclick, Inc., which owns and operates the combined properties of Styleclick.com and ISN. Styleclick, Inc. is traded on the OTC under the symbol "IBUY". In accordance with the terms of the agreement, USA invested \$40 million in cash and agreed to contribute \$10 million in dedicated media, and received warrants to purchase additional shares of the new company. At closing, Styleclick.com repaid \$10 million of borrowings outstanding under a bridge loan provided by USA.

The aggregate purchase price, including transaction costs, of \$211.9 million was determined as follows:

	<b>(In Thousands)</b>
Value of portion of Styleclick.com acquired in the merger	\$ 121,781
Additional cash and promotional investment by USAi	50,000
Fair value of outstanding "in the money options" and warrants of Styleclick.com	37,989
Transaction costs	2,144
<b>Total acquisition costs</b>	<b>\$ 211,914</b>

The fair value of Styleclick.com was based on the fair value of \$15.78 per share times 7.7 million shares outstanding. Fair value of the shares was determined by taking an average of the opening and closing price of Styleclick.com common stock for the period just before and just after the terms of the transaction were agreed to by the Company and Styleclick.com and announced to the public. In conjunction with the transaction, the Company recorded a pre-tax gain of \$104.6 million in accordance with Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock by a Subsidiary", based upon the 25% of ISN's net book value exchanged for 75% of Styleclick.com's fair value, determined based upon the fair value of Styleclick.com common stock received in the merger. The Styleclick transaction has been accounted for under the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of purchase. The unallocated excess of acquisition costs over net assets acquired of \$170.2 million has been allocated to goodwill, which originally was being amortized over 3 years.

In March 2001, Styleclick announced a new company organization designed to advance its offering of scaleable commerce services. The announcement included Styleclick's acquisition of the MVP.com technology platform. Also in March 2001, the Styleclick Board elected two executives of ECS to top management positions at Styleclick, and certain senior executives of Styleclick left the Company. As of December 31, 2000, as a result of the historical and anticipated operating losses of Styleclick, and the continuing evaluation of the operations and technology, Styleclick determined the goodwill recorded in conjunction with the Styleclick Merger was impaired and recorded a write-down of \$145.6 million as goodwill amortization in fiscal 2000. 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. Styleclick is considering its options with respect to the situation. As of December 31, 2001, Styleclick has net liabilities of \$2.1 million.

18

#### PRC Transaction

On April 5, 2000, USAi acquired PRC in a tax-free merger by issuing approximately 24.3 million shares of USAi common stock for all of the outstanding stock of PRC for a total value of approximately \$711.7 million (the "PRC Transaction"). In connection with the acquisition, the Company repaid approximately \$32.3 million of outstanding borrowings under PRC's existing revolving credit facility. The PRC Transaction has been accounted for under the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of purchase. The unallocated excess of acquisition costs over net assets acquired of \$658.0 million has been allocated to goodwill, which is being amortized over 20 years.

As noted above, although it has not completed its assessment, the Company anticipates a write-off of \$250 million to \$300 million primarily related to the PRC goodwill. Although PRC is expected to generate positive cash flows in the future, due to cash flow discounting techniques to estimate fair value required by

the new rules, the future cash flows may not support current carrying values.

### October Films/PFE Transaction (Discontinued Operations)

On May 28, 1999, the Company acquired October Films, Inc. ("October Films"), in which Universal owned a majority interest, and the domestic film distribution and development business of Universal previously operated by Polygram Filmed Entertainment, Inc. ("PFE") (the "October Films/PFE Transaction"). In connection with the acquisition of October Films, Inc., as of May 28, 1999, the Company issued 600,000 shares of Common Stock to Universal and paid cash consideration of approximately \$12.0 million to October Films shareholders (other than Universal) for total consideration of \$23.6 million. To fund the cash consideration portion of the transaction, Universal purchased from USA 600,000 additional shares of Common Stock at \$20.00 per share. In addition, the Company assumed \$83.2 million of outstanding debt under October Films' credit agreement which was repaid from cash on hand on August 20, 1999.

Also on May 28, 1999, USAi acquired from Universal the domestic film distribution and development business previously operated by PFE and PFE's domestic video and specialty video businesses. In connection with the transaction, USAi agreed to assume certain liabilities related to the PFE businesses acquired. In addition, USA advanced \$200.0 million to Universal pursuant to an eight year, full recourse, interest-bearing note in connection with a distribution agreement pursuant to which USAi will distribute, in the U.S. and Canada, certain Polygram theatrical films which were not acquired in the transaction. The advance is repaid as revenues are received under the distribution agreement and, in any event, will be repaid in full at maturity. Through December 31, 2001, approximately \$180.1 million had been offset against the advance and \$19.4 million of interest had accrued.

The October Films/PFE Transaction has been accounted for under the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of purchase. The unallocated excess of acquisition costs over net assets acquired of \$184.5 million has been allocated to goodwill, which is being amortized over 20 years.

19

### Hotels.com Transaction

On May 10, 1999, the Company completed its acquisition of substantially all of the assets and the assumption of substantially all of the liabilities of two entities which operate Hotels.com, a leading consolidator of hotel rooms for resale in the consumer market in the United States (the "Hotels.com Transaction"). The assets acquired and liabilities assumed comprise Hotels.com. ("Hotels"). The total purchase price was \$405.8 million, resulting in goodwill of approximately \$406.3 million which is being amortized over a ten year life.

On March 1, 2000, Hotels completed an initial public offering for approximately 6.2 million shares of its class A common stock, resulting in net cash proceeds of approximately \$90.0 million. At the completion of the offering, USA owned approximately 70.6% of the outstanding shares of Hotels. USA recorded a gain related to the initial public offering of approximately \$3.7 million in the year ended December 31, 2000 in accordance with Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock by a Subsidiary."

### Business Acquisition Pro Forma Results

The following unaudited pro forma condensed consolidated financial information for the years ended December 31, 2001 and 2000, is presented to show the results of the Company, as if the Styleclick Transaction and the PRC Transaction, as well as the merger of Ticketmaster and Ticketmaster Online Citysearch had occurred at the beginning of the periods presented. The pro forma results include certain adjustments, including increased amortization related to goodwill and other intangibles and an increase in interest expense, and are not necessarily indicative of what the results would have been had the transactions actually occurred on the aforementioned dates. Note that the amounts exclude USAB and USA Entertainment, which are presented as discontinued operations (see Note 21).

	Years Ended December 31,	
	2001	2000
	(In Thousands, Except Per Share Data)	
Net revenues	\$ 3,468,860	\$ 3,036,150
Loss from continuing operations	(188,335)	(214,980)
Basic and diluted loss per common share, continuing operations	\$ (.50)	\$ (.59)

The following unaudited pro forma condensed consolidated financial information for the year ended December 31, 1999, is presented to show the results of the Company as if the Styleclick Transaction, the PRC Transaction and the Hotels Transaction had occurred at the beginning of the period presented. The pro forma results include certain adjustments, including increased amortization related to goodwill and other intangibles and changes in film costs amortization, and are not necessarily indicative of what the results would have been had the transactions actually occurred on the

20

forementioned dates. Note that the amounts exclude USAB and USA Entertainment, which are presented as discontinued operations (see Note 21).

	Year Ended December 31, 1999
	(In Thousands, Except Per Share Data)
Net revenues	\$ 2,260,903
Loss from continuing operations	(99,570)
Basic and diluted loss per common share, continuing operations	\$ (.28)

### NOTE 4—INTANGIBLE ASSETS

Intangible assets are amortized using the straight-line method and include the following:

	December 31,	
	2001	2000
	(In Thousands)	
Intangible Assets, net:		
Goodwill	\$ 3,075,831	\$ 3,089,182
Other	218,651	280,666
	<u>\$ 3,294,482</u>	<u>\$ 3,369,848</u>

21

#### NOTE 5—LONG-TERM OBLIGATIONS

	December 31,	
	2001	2000
	(In Thousands)	
Unsecured Senior Credit Facility ("New Facility"); with a \$40,000,000 sub-limit for letters of credit, entered into February 12, 1998, which matures on December 31, 2002. At the Company's option, the interest rate on borrowings is tied to the London Interbank Offered Rate ("LIBOR") or the Alternate Base Rate ("ABR"), plus an applicable margin. Interest rate at December 31, 2001 was 2.9%	\$ —	\$ —
\$500,000,000 6 <sup>3</sup> / <sub>4</sub> % Senior Notes (the "Senior Notes") due November 15, 2005; interest payable May 15 and November 15 commencing May 15, 1999. Interest rate at December 31, 2001 was 6.75%	498,515	498,213
Unsecured \$37,782,000 7% Convertible Subordinated Debentures ("Savoy Debentures") due July 1, 2003 convertible into USAi Common Stock at a conversion price of \$33.22 per share	36,118	35,163
Other long-term obligations maturing through 2007	43,258	43,138
Total long-term obligations	<u>577,891</u>	<u>576,514</u>
Less current maturities	(33,519)	(24,748)
Long-term obligations, net of current maturities	<u>\$ 544,372</u>	<u>\$ 551,766</u>

On February 12, 1998, USA and USANi LLC, as borrower, entered into a \$1.6 billion credit facility. The credit facility was used to finance the acquisition on February 12, 1998 of USA Networks and the domestic television production and distribution businesses of Universal Studios from Universal and to refinance USA's then-existing \$275.0 million revolving credit facility. The credit facility consists of (1) a \$600.0 million revolving credit facility with a \$40.0 million sub-limit for letters of credit, (2) a \$750.0 million Tranche A Term Loan and, (3) a \$250.0 million Tranche B Term Loan. The Tranche A Term Loan and the Tranche B Term Loan have been permanently repaid as described below.

The existing credit facility is guaranteed by certain of USA's subsidiaries. The interest rate on borrowings under the existing credit facility is tied to an alternate base rate or the London InterBank Rate, in each case, plus an applicable margin, and \$595.4 million was available for borrowing as of December 31, 2001 after taking into account outstanding letters of credit. The credit facility includes covenants requiring, among other things, maintenance of specific operating and financial ratios and places restrictions on payment of certain dividends, incurrence of indebtedness and investments. The Company pays a commitment fee of .1875% on the unused portion of the credit facility. Subsequent to the closing of the VUE transaction, the existing credit facility has expired. See Note 21 for further discussion of the VUE transaction.

The Savoy Debentures are redeemable at the option of the Company at varying percentages of the principal amount each year, ranging from 105.25% to 100.75%, plus applicable interest. In connection with the Savoy Merger, USA became a joint and several obligor with respect to the Savoy Debentures.

22

Aggregate contractual maturities of long-term obligations are as follows:

Years Ending December 31,	(In Thousands)	
2002	\$	33,519
2003		37,350
2004		1,073
2005		493,590
2006		921
Thereafter		11,438
	<u>\$</u>	<u>577,891</u>

#### NOTE 6—INCOME TAXES

A reconciliation of total income tax expense to the amounts computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes and minority interest is shown as follows:

	Years Ended December 31,		
	2001	2000	1999
	(In Thousands)		
Income tax benefit at the federal statutory rate of 35%	\$ (100,610)	\$ (107,833)	\$ (28,982)
Amortization of goodwill and other intangibles	23,087	52,554	11,685
Foreign losses not consolidated into group	2,741	527	24,533
State income taxes, net of effect of federal tax benefit	(175)	3,771	3,283
Impact of minority interest	8,144	49,430	15,983
Domestic losses not consolidated into group	59,780	33,429	—
Other, net	9,483	11,972	2,056
Income tax expense	\$ 2,450	\$ 43,850	\$ 28,558

The components of income tax expense are as follows:

	Years Ended December 31,		
	2001	2000	1999
	(In Thousands)		
Current income tax (benefit) expense:			
Federal	\$ (10,106)	\$ 10,684	\$ 9,935
State	(2,007)	2,256	5,476
Foreign	2,310	9,553	2,257
Current income tax (benefit) expense	(9,803)	22,493	17,668
Deferred income tax expense:			
Federal	8,750	17,811	10,983
State	2,519	3,546	(426)
Foreign	984	—	333
Deferred income tax expense	12,253	21,357	10,890
Total income tax expense	\$ 2,450	\$ 43,850	\$ 28,558

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2001 and 2000 are presented below. The valuation allowance represents items for which it is more likely than not that the tax benefit will not be realized.

	December 31,	
	2001	2000
	(In Thousands)	
Current deferred tax assets (liabilities):		
Inventory costing	\$ 6,875	\$ 9,363
Provision for accrued expenses	13,827	11,268
Investments in affiliates	—	3,932
Deferred revenue	(3,743)	(3,437)
Other	22,987	11,716
Net current deferred tax assets	\$ 39,946	\$ 32,842
Non-current deferred tax assets (liabilities):		
Broadcast and cable fee contracts	\$ 1,693	\$ 1,693
Depreciation for tax in excess of financial statements	(6,248)	(11,946)
Amortization of tax deductible goodwill	16,485	14,221
Investment in subsidiaries	27,165	15,866
Gain on sale of subsidiary stock	(46,415)	(46,415)
Gain on sale of Broadcasting	(168,586)	—
Net federal operating loss carryforward	97,785	10,522
Deferred revenue	(157)	—
Warrant Amortization	(10,835)	—

Other	(22,806)	(12,607)
<b>Total non-current deferred tax liabilities</b>	<b>(111,919)</b>	<b>(28,666)</b>
Less valuation allowance	(98,265)	(14,117)
<b>Net non-current deferred tax liabilities</b>	<b>\$ (210,184)</b>	<b>\$ (42,783)</b>
<b>Total deferred tax liabilities</b>	<b>\$ (170,238)</b>	<b>\$ (9,941)</b>

The Company recognized income tax deductions related to the issuance of common stock pursuant to the exercise of stock options for which no compensation expense was recorded for accounting purposes. The related income tax benefits of \$38.4 million, \$27.0 million, and \$42.4 million for the years ended December 31, 2001, 2000 and 1999, respectively, were recorded as increases to additional paid-in capital.

At December 31, 2001 and 2000, the Company has net operating loss carryforwards ("NOL") for federal income tax purposes of \$275.7 and \$139.5 million, respectively, which are available to offset future federal taxable income, if any, through 2020. Such NOL's were acquired through acquisitions or are losses of consolidated subsidiaries in separate tax groups, which are subject to certain tax loss limitations. Accordingly, the Company has established a valuation allowance for these losses that are substantially limited. Amounts recognized, if any, of these tax benefits in future periods will be applied as a reduction of goodwill associated with the acquisition. The Company has Federal income tax returns under examination by the Internal Revenue Service. The Company has received proposed adjustments related to certain examinations. Management believes that the resolution of the proposed adjustments will not have a material adverse effect on the Company's consolidated financial statements.

## NOTE 7—COMMITMENTS AND CONTINGENCIES

The Company leases satellite transponders, computers, warehouse and office space, equipment and services used in connection with its operations under various operating leases and contracts, many of which contain escalation clauses.

Future minimum payments under non-cancelable agreements are as follows:

Years Ending December 31,	(In Thousands)
2002	\$ 50,912
2003	26,943
2004	23,577
2005	16,086
2006	12,825
Thereafter	95,515
	<b>\$ 225,858</b>

Expenses charged to operations under these agreements were \$77.9 million, \$65.0 million and \$47.0 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Hotels has non-cancelable commitments for hotel rooms totaling \$23.1 million, which relate to the period January 1, 2002 to December 31, 2002. Hotels also has, as of December 31, 2001, \$6.7 million of outstanding letters of credit that expire between March 2002 and March 2003. The outstanding letters of credit are collateralized by \$7.6 million of restricted cash equivalents at December 31, 2001.

The Company is required to provide funding, from time to time, for the operations of its investments in joint ventures accounted for under the equity method. To date, HSN has funded \$125.3 million to Hot Networks, a company operating electronic retailing operations in Europe in which the Company holds an equity stake. See Note 19 for further discussion.

## NOTE 8—INVENTORIES

	December 31,	
	2001	2000
Sales merchandise, net	\$ 195,991	\$ 226,294
Other	1,363	1,626
<b>Total</b>	<b>\$ 197,354</b>	<b>\$ 227,920</b>

## NOTE 9—STOCKHOLDERS' EQUITY

On January 20, 2000, the Board of Directors declared a two-for-one stock split of USA's common stock and Class B common stock, payable in the form of a dividend to stockholders of record as of the close of business on February 10, 2000. The 100% stock dividend was paid on February 24, 2000. All share data give effect to such stock split, applied retroactively as if the split occurred on January 1, 1999.



## Description of Common Stock and Class B Convertible Common Stock

Holders of USA Common Stock have the right to elect 25% of the entire Board of Directors, rounded upward to the nearest whole number of directors. As to the election of the remaining directors, the holders of USA Class B Common Stock are entitled to 10 votes for each USA Class B Common Stock share, and the holders of the USA Common Stock are entitled to one vote per share. There are no cumulative voting rights.

The holders of both classes of the Company's common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available for the payment of dividends. The Company's existing credit facility places restrictions on payment of certain dividends. In the event of the liquidation, dissolution or winding up of the Company, the holders of both classes of common stock are entitled to share ratably in all assets of the Company remaining after provision for payment of liabilities. USA Class B Common Stock is convertible at the option of the holder into USA Common Stock on a share-for-share basis. Upon conversion, the USA Class B Common Stock will be retired and not subject to reissue.

## Note Receivable from Key Executive for Common Stock Issuance

In connection with Mr. Diller's employment in August 1995, the Company agreed to sell Mr. Diller 1,767,952 shares of USA Common Stock ("Diller Shares") at \$5.6565 per share for cash and a non-recourse promissory note in the amount of \$5.0 million, secured by approximately 1,060,000 shares of USA Common Stock. The promissory note is due on the earlier of (i) the termination of Mr. Diller's employment, or (ii) September 5, 2007.

## Stockholders' Agreement

Mr. Diller, Chairman of the Board and Chief Executive Officer of the Company, through BDTV, INC., BDTV II, INC., BDTV III, INC., BDTV IV, INC., his own holdings and pursuant to the Stockholders Agreement with Universal, Liberty, the Company and Vivendi (the "Stockholders Agreement"), has the right to vote approximately 14.4% (45,291,540 shares) of USA's outstanding common stock, and 100% (63,033,452 shares) of USA's outstanding Class B Common Stock. Each share of Class B Common Stock is entitled to ten votes per share with respect to matters on which Common and Class B stockholders vote as a single class. As a result, Mr. Diller controls 71.5% of the outstanding total voting power of the Company. Mr. Diller, subject to the Stockholders Agreement, is effectively able to control the outcome of nearly all matters submitted to a vote of the Company's stockholders. Liberty HSN holds substantially all of the economic interest in, and Mr. Diller holds all of the voting power in, the shares of USAi stock held by the BDTV entities listed above.

## Reserved Common Shares

In connection with option plans, convertible debt securities, pending acquisitions and other matters 533,792,416 shares of Common Stock were reserved. After the closing of the Expedia and the VUE transactions, 339,940,844 shares of Common Stock will be reserved, which includes 7,079,726 shares of USANi LLC which will be exchanged for USA common shares by Liberty in relation to the VUE transaction, 59,457,479 shares issuable in relation to preferred stock and warrants issued in the Expedia transaction, 60,467,735 shares issuable in relation to warrants to be issued to Vivendi in the pending Vivendi transaction. 320,856,512 of USANi LLC shares that are currently exchangeable into Common Stock reserved will be retired in the Vivendi Transaction.

## Stock-Based Warrants

In January 2000, Hotels entered into an exclusive affiliate distribution and marketing agreement and issued a performance warrant upon the completion of the public offering, which, if fully vested, would have permitted the affiliate to acquire 2,447,955 shares of class A common stock at the initial public offering price of \$16.00. On March 3, 2001, Hotels restructured the affiliate distribution and marketing agreement whereby the term of the agreement was extended through July 2005 in exchange for waiver of all performance vesting requirements and all exercise restrictions on 60% of the performance warrants (1,468,773 shares) originally issued to such affiliate. The remaining 40% of the performance warrant (979,182 shares) will become vested based upon achieving certain performance targets during the term of the agreement. As a result of the restructured agreement, Hotels deferred additional warrant cost of \$26.3 million related to the 1,468,773 shares. Hotels amortized \$5.0 million of such costs during the twelve months ended December 31, 2001. The remainder will be amortized over the amended term of the agreement. During the years 2001 and 2000, 15.6% and 9.1%, respectively, of the Hotels's sales originated from customers of the affiliate. Hotels expects the proportion of sales generated through the affiliate to stabilize or decline during the remaining term of the agreement.

The fair value of the warrants (979,182 shares) with performance features will be measured quarterly, and will be charged to expense as non-cash distribution and marketing expense as they are earned. For the twelve months ended December 31, 2001, Hotels recorded an expense of approximately \$6.4 million related to the performance warrants earned.

Additionally, in November 2000 and March 2001, Hotels entered into additional affiliate distribution and marketing agreements and agreed to issue warrants based upon the affiliates achieving certain performance targets. If the targets are met in full, Hotels will be required to issue warrants to acquire an aggregate of 2.8 million shares of class A common stock at an average price calculated at the end of each performance measurement period. No warrants were required to be issued under these agreements during the years ending December 31, 2001 and 2000.

In February 2000, Hotels entered into other exclusive affiliate distribution and marketing agreements and issued 1,428,365 warrants to purchase class A common stock at the initial public offering price of \$16.00. Additionally, in November 2000, Hotels entered into another affiliate distribution and marketing agreement and issued 95,358 warrants to purchase class A common stock at an exercise price of \$31.46. These 1,523,723 warrants are non-forfeitable, fully vested and exercisable and are not subject to any performance targets. Hotels has deferred the cost of \$17.7 million for these warrants, and is amortizing the cost over the term of the affiliate agreements, which range from two to five years. During the twelve months ended December 31, 2001 and 2000, Hotels amortized \$5.0 million and \$4.3 million of the warrant costs, respectively.

## Expedia Transaction (Subsequent Event—Unaudited)

As noted in Footnote 1, on February 4, 2002 the Company 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 20.6 million shares of USA common stock, 13.1 million shares of \$50

face value 1.99% cumulative convertible preferred stock of USA and warrants to acquire 14.6 million shares of USA common stock at an exercise price of \$35.10. The holders of the USA Series A Cumulative Convertible Preferred Stock are entitled to 2 votes for each share of USA Series A Cumulative Convertible Preferred Stock held on all matters presented to such

shareholders. Each share of USA Series A Cumulative Convertible Preferred Stock is convertible, at the option of the holder at any time, into that number of shares of USA common stock equal to the quotient obtained by dividing \$50 by the conversion price per share of USA common stock. The initial conversion price is equal to \$33.75 per share of USA common stock. The conversion price will be adjusted downward if the share price of USA common stock exceeds \$35.10 at the time of conversion. Each USA warrant gives the holder the right to acquire one share of USA common stock at an exercise price of \$35.10 through February 4, 2009. The USA cumulative preferred stock trades on OTC under the symbol "USAIP" and the USA warrants trade on Nasdaq under the symbol "USAIW."

#### **Vivendi Transaction (Subsequent Event—Unaudited)**

As noted in Footnote 1, on May 7, 2002, the Company completed the VUE transaction pursuant to which USA contributed USA's Entertainment Group to a joint venture with Vivendi, which joint venture also holds the film, television and theme park businesses of Universal. In relation to the transaction, USA issued shares of common stock and warrants to acquire shares of USA common stock, and USA canceled shares of USANi LLC that were exchangeable into shares of USA common stock. Pro forma for the VUE transaction and after giving effect to the exchange of all of Liberty's Holdco shares, Liberty, through companies owned by Liberty and Mr. Diller, owns approximately 10.2% of USA's outstanding common stock and 79.3% of USA's outstanding Class B common stock, Vivendi (through subsidiaries), would own approximately 11.4% of USA's outstanding common stock and 20.7% of USA's outstanding Class B common stock and the public shareholders, including Mr. Diller and other USA officers and directors, will own approximately 78.4% of USA's common stock. Vivendi's ownership, however, is in the form of 43.2 million shares of USA common stock and 13.4 million shares of Class B common stock (for a total of 56.6 million USA shares), which number of shares are required to be held by Vivendi in connection with its obligations related to the Class B preferred interest in VUE. The preferred is to be settled by Universal at its then face value with a maximum of approximately 56.6 million USA common shares, provided that Universal may substitute cash in lieu of shares of USA common stock (but not USA Class B common stock), at its election. If USA's share price exceeds \$40.82 per share at the time of settlement, fewer than 56.6 million shares would be cancelled.

Pro forma for the VUE transaction and after giving effect to the exchange of all of Liberty's Holdco shares, Mr. Diller controls 69.6% of the outstanding total voting power of USA. Upon the closing of the VUE transaction, Vivendi's limited veto rights have been eliminated and Liberty's veto rights have been limited to fundamental changes in the event USA's total debt ratio (as defined in the Amended and Restated Governance Agreement, among USA, Vivendi, Universal, Liberty and Mr. Diller, to become effective at the closing of the Vivendi transaction) equals or exceeds 4:1 over a twelve-month period.

Also in connection with the transaction, Liberty exchanged 7,079,726 shares of USANi LLC for shares of USA common stock, and subsequently transferred to Universal 25,000,000 shares of USA common stock, its remaining 38,694,982 shares of USANi LLC, as well as the assets and liabilities of Liberty Programming France (which consist primarily of 4,921,250 shares of multiThematiques S.A., a French entity), in exchange for 37,386,436 Vivendi ordinary shares.

In addition, USA issued to Universal ten-year warrants to acquire shares of USA common stock as follows: 24,187,094 shares at \$27.50 per share; 24,187,094 shares at \$32.50 per share; and 12,093,547 shares at \$37.50 per share.

#### **NOTE 10—LITIGATION**

In the ordinary course of business, the Company is engaged in various lawsuits, including a certain class action lawsuit initiated in connection with the Vivendi Transaction. In the opinion of management, the ultimate outcome of the various lawsuits should not have a material impact on the liquidity, results of operations or financial condition of the Company.

#### **NOTE 11—BENEFIT PLANS**

The Company offers various plans pursuant to Section 401(k) of the Internal Revenue Code covering substantially all full-time employees who are not party to collective bargaining agreements. The Company's share of the Match.com employer contributions is set at the discretion of the Board of Directors or the applicable committee thereof.

#### **NOTE 12—STOCK OPTION PLANS**

The following describes the stock option plans. Share numbers, prices and earnings per share reflect the Company's two-for-one stock split which became effective for holders of record as of the close of business on February 10, 2000.

The Company has outstanding options to employees of the Company under several plans (the "Plans") which provide for the grant of options to purchase the Company's common stock at not less than fair market value on the date of the grant. The options under the Plans vest ratably, generally over a range of three to five years from the date of grant and generally expire not more than 10 years from the date of grant. Five of the Plans have options available for future grants.

The Company also has outstanding options to outside directors under one plan (the "Directors Plan") which provides for the grant of options to purchase the Company's common stock at not less than fair market value on the date of the grant. The options under the Directors Plan vest ratably, generally over three years from the date of grant and expire not more than 10 years from the date of grant. A summary of changes in outstanding options under the stock option plans following the Company's two-for-one stock split, is as follows:

December 31,

2001	2000	1999
------	------	------

	Shares	Price Range(\$)	Shares	Price Range(\$)	Shares	Price Range(\$)
	(Shares in Thousands)					
Outstanding at beginning of period	88,755	1-28	75,955	1-37	78,428	1-37
Granted or issued in connection with mergers	7,503	19-28	19,526	4-28	10,007	16-28
Exercised	(9,116)	1-28	(4,277)	1-20	(11,155)	1-13
Cancelled	(2,716)	3-28	(2,449)	6-37	(1,325)	6-18
Outstanding at end of period	84,426	1-28	88,755	1-28	75,955	1-37
Options exercisable	63,023	1-37	56,968	1-28	47,987	1-37
Available for grant	10,379		33,628		27,225	

The weighted average exercise prices during the year ended December 31, 2001, were \$23.02, \$8.88 and \$20.47 for options granted, exercised and cancelled, respectively. The weighted average fair value of options granted during the year was \$9.69.

29

The weighted average exercise prices during the year ended December 31, 2000, were \$21.05, \$7.92 and \$19.93 for options granted, options exercised and options cancelled, respectively. The weighted average fair value of options granted during the year was \$8.10.

The weighted average exercise prices during the year ended December 31, 1999, were \$23.77, \$6.05 and \$11.56 for options granted, exercised and cancelled, respectively. The weighted average fair value of options granted during the year was \$9.52.

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at December 31, 2000	Weighted Average Exercise Price
(In Thousands)					
\$ 0.01 to \$ 5.00	18,418	3.9	\$ 4.72	18,224	\$ 4.72
\$ 5.01 to \$10.00	32,301	5.0	8.30	32,137	8.31
\$10.01 to \$15.00	4,959	6.5	12.43	3,470	12.40
\$15.01 to \$20.00	9,613	7.2	18.76	4,151	18.75
\$20.01 to \$25.00	14,348	8.4	22.75	2,947	22.42
\$25.01 to \$27.91	4,787	8.1	27.67	2,094	27.86
	84,426	5.7	12.51	63,023	9.49

Pro forma information regarding net income and earnings per share is required by SFAS 123. The information is determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair market value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001, 2000 and 1999: risk-free interest rates of 5.0%; a dividend yield of zero; a volatility factor of .72, .62, and .44, respectively, based on the expected market price of USAi Common Stock based on historical trends; and a weighted-average expected life of the options of five years.

The Black-Scholes option valuation model was developed for use in estimating the fair market value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair market value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

30

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	Years Ended December 31,		
	2001	2000	1999
(In Thousands, Except Per Share Data)			
Pro forma net income (loss)	\$ 303,277	\$ (209,183)	\$ (68,858)
Pro forma basic earnings (loss)	\$ 0.81	\$ (0.58)	\$ (.21)
Pro forma diluted earnings (loss)	\$ 0.49	\$ (0.58)	\$ (.21)

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years.

Employees of the Entertainment group had 4.6 million unvested options as of the close, May 7, 2002. The options have been terminated in accordance with their terms. There were 1.6 million vested options remaining with the Company that are exercisable. Options that are not exercised within ninety days/three months, as applicable, after May 7, 2002 will terminate in accordance with their terms.

#### **NOTE 13—STATEMENTS OF CASH FLOWS**

##### **Supplemental Disclosure of Non-Cash Transactions for the year ended December 31, 2001:**

For the year ended December 31, 2001, interest accrued on the \$200.0 million advance to Universal amounted to \$3.9 million.

For the twelve months ended December 31, 2001, the Company incurred non-cash distribution and marketing expense of \$26.4 million and non-cash compensation expense of \$7.8 million.

In 2001 the Company realized pre-tax losses of \$30.7 million on equity losses in unconsolidated subsidiaries, resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2001 the Company realized pre-tax losses of \$18.7 million 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.

##### **Supplemental Disclosure of Non-Cash Transactions for the year ended December 31, 2000:**

As of January 1, 2000, the Company presents the operations of HOT Germany, an electronic retailer operating principally in Germany, on a consolidated basis, whereas its investment in HOT Germany was previously accounted for under the equity method of accounting.

On January 20, 2000, the Company completed its acquisition of Ingenious Designs, Inc. ("IDI"), by issuing approximately 190,000 shares of USA common stock for all the outstanding stock of IDI, for a total value of approximately \$5.0 million.

On January 31, 2000, TMCS completed its acquisition of 2b Technology, Inc. ("2b"), by issuing approximately 458,005 shares of TMCS Class B Common Stock for all the outstanding stock of 2b, for a total value of approximately \$17.1 million.

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On April 5, 2000, USA completed its acquisition of PRC by issuing approximately 24.3 million shares of USAi common stock for all of the outstanding stock of PRC, for a total value of approximately \$711.7 million.

On May 26, 2000, TMCS completed its acquisition of Ticketweb, Inc. ("Ticketweb"), by issuing approximately 1.8 million shares of TMCS Class B Common Stock for all the outstanding stock of Ticketweb, for a total value of approximately \$35.3 million.

For the year ended December 31, 2000, interest accrued on the \$200.0 million advance to Universal amounted to \$8.7 million.

For the year ended December 31, 2000, the Company recorded a pre-tax gain of \$104.6 million related to the Styleclick transaction, and \$3.7 million related to the Hotels IPO (see Note 3).

For the year ended December 31, 2000, the Company incurred non-cash distribution and marketing expense of \$11.7 million and non-cash compensation expense of \$12.7 million, including \$3.8 million related to an agreement with an executive.

In 2000 the Company realized pre-tax losses of \$7.9 million on equity losses in unconsolidated subsidiaries resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2000 the Company also realized pre-tax losses of \$46.1 million 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.

##### **Supplemental Disclosure of Non-Cash Transactions for the year ended December 31, 1999:**

On March 29, 1999, TMCS completed its acquisition of City Auction, Inc. ("City Auction"), a person-to-person online auction community, by issuing approximately 800,000 shares of TMCS Class B Common Stock for all the outstanding stock of City Auction, for a total value of \$27.2 million.

On June 14, 1999, TMCS completed the acquisition of Match.com., Inc ("Match.com."), an Internet personals company. In connection with the acquisition, TMCS issued approximately 1.9 million shares of TMCS Class B Common Stock to the former owners of Match.com. representing a total purchase price of approximately \$43.3 million.

On September 13, 1999, TMCS purchased all the outstanding limited liability company units ("Units") of Web Media Ventures, L.L.C., an Internet personals company distributing its services through a network of affiliated Internet sites. In connection with the acquisition, TMCS issued 1.2 million shares of TMCS Class B Common Stock in exchange for all of the Web Media Units. In addition, TMCS is obligated to issue additional contingent shares related to certain revenue targets. The total purchase price recorded at September 13, 1999, without considering the contingent shares, was \$36.6 million.

On September 18, 1999, TMCS acquired certain assets associated with the entertainment city guide portion of the Sidewalk.com web site ("Sidewalk") from Microsoft Corporation ("Microsoft"). The Company also entered into a four year distribution agreement with Microsoft pursuant to which the Company became the exclusive provider of local city guide content on the Microsoft Network ("MSN") and the Company's internet personals Web sites became the premier provider of personals content to

MSN. In addition, the Company and Microsoft entered into additional cross-promotional arrangements. TMCS issued Microsoft 7.0 million shares of TMCS Class B Common Stock. The fair value of the consideration provided in exchange for the Sidewalk assets and distribution agreement amounted to \$338.0 million.

For the period May 28 to December 31, 1999, interest accrued on the \$200.0 million advance to Universal amounted to \$6.7 million.

In 1999, the Company acquired post-production and other equipment through capital leases totaling \$2.5 million.

In 1999, TMCS issued shares with a value of \$10.5 million in exchange for an equity investment.

In 1999, the Company leased an airplane which was accounted for as a capital lease in the amount of \$20.8 million.

For the year ended December 31, 1999, the Company incurred non-cash compensation expense of \$6.4 million.

## DISCONTINUED OPERATIONS

On May 28, 1999, in connection with the October Films/PFE Transaction, the Company issued 600,000 shares of Common Stock, with a value of approximately \$12.0 million.

### Supplemental Disclosure of Cash Flow Information:

	Years Ended December 31,		
	2001	2000	1999
	(In Thousands)		
Cash paid during the period for:			
Interest	\$ 39,285	\$ 38,946	\$ 51,368
Income tax payments	23,584	16,663	22,323
Income tax refund	1,053	1,662	632

## NOTE 14—RELATED PARTY TRANSACTIONS

As of December 31, 2001, the Company was involved in several agreements with related parties as follows:

### CONTINUING OPERATIONS

The Company has a secured, non-recourse note receivable of \$5.0 million from its Chairman and Chief Executive Officer. See Note 9.

Under the USANi LLC Operating Agreement, USANi LLC is 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 estimated amount for 2001 is \$153.5 million and is expected to be paid on February 28, 2002. In March 2000, the Company made a mandatory tax distribution payment to

Universal and Liberty in the amount of \$68.1 million related to the year ended December 31, 1999. The amount for the year ended December 31, 1998 was \$28.8 million and it was paid in March 1999.

## DISCONTINUED OPERATIONS

Universal provides certain support services to the Company under a Transition Services agreement entered into in connection with the Universal Transaction. For these services, which include use of pre-production, production and post-production facilities, information technology services, physical distribution, contract administration, legal services and office space, Universal charged the Company \$7.1 million, \$8.2 million and \$12.5 million for the years ended December 31, 2001, 2000 and 1999, respectively, of which \$5.7 million, \$4.7 million and \$8.0 million was capitalized to production costs, respectively.

Universal and the Company entered into an International Television Distribution Agreement under which the Company pays to Universal a distribution fee of 10% on all programming owned or controlled by the Company distributed outside of the United States. For the years ended December 31, 2001, 2000 and 1999, the fee totaled \$13.6 million, \$14.0 million and \$9.0 million, respectively.

In addition, the Company and Universal entered into a Domestic Television Distribution Agreement under which the Company distributes in the United States certain of Universal's television programming. For the years ended December 31, 2001, 2000 and 1999, Universal paid the Company \$4.1 million, \$1.5 million and \$1.5 million, respectively.

Pursuant to the October Films/PFE Transaction, the company entered into a series of agreements on behalf of its filmed entertainment division ("Films") with entities owned by Universal, to provide distribution services, video fulfillment and other interim and transitional services. These agreements are described below.

Under a distribution agreement covering approximately fifty films owned by Universal, Films earns a distribution fee and remits the balance of revenues to a Universal entity. For the twelve month periods ending December 31, 2001 and 2000, Films earned distribution fees of approximately \$5.7 million and

\$10.7 million, respectively, from the distribution of these films. Films is responsible for collecting the full amount of the sale and remitting the net amount after its fee to Universal, except for amounts applied against the Universal Advance (see Note 3).

In addition, Films acquired home video distribution rights to a number of "specialty video" properties. Universal holds a profit participation in certain of these titles. No amounts were earned by Universal under this agreement to date.

Films is party to a "Videogram Fulfillment Agreement" with a Universal entity pursuant to which such entity provides certain fulfillment services for the United States and Canadian home video markets. In the period ending December 31, 2001 and 2000, Films incurred fees to Universal of approximately \$5.6 million and \$3.5 million, respectively, for such services.

Films has entered into other agreements with Universal pursuant to which Universal administers certain music publishing rights controlled by Films and has licensed to Universal certain foreign territorial distribution rights in specified films from which it received \$0.0 million and \$5.8 million in revenue during the period ending December 31, 2001 and 2000, respectively.

34

In connection with the settlement of its interest in an international joint venture, the Company received \$24.0 million from Universal during 2001.

**NOTE 15—QUARTERLY RESULTS (UNAUDITED)**

	Quarter Ended December 31,	Quarter Ended September 30,	Quarter Ended June 30,	Quarter Ended March 31,
(In Thousands, Except Per Share Data)				
<b>Year Ended December 31, 2001</b>				
Net revenues	\$ 948,506	\$ 837,839	\$ 861,853	\$ 820,662
Operating loss	(35,276)	(79,930)	(47,689)	(53,528)
Loss from continuing operations(a)	(46,440)	(62,876)	(33,860)	(43,623)
Earnings (loss) before cumulative effect of accounting change(a)(b)	(56,948)	427,575	39,551	(17,383)
<b>Net earnings (loss)(a)(b)(c)(g)(i)</b>	<b>(56,948)</b>	<b>427,575</b>	<b>39,551</b>	<b>(26,570)</b>
<b>Loss per Share—Continuing Operations</b>				
Basic and diluted loss per common share(d)	(.12)	(.17)	(.09)	(.12)
<b>Earnings (loss) per Share—Before Cumulative Effect of Accounting Change</b>				
Basic earnings (loss) per common share(d)	(.15)	1.14	.11	(.05)
Diluted net earnings (loss) per common share(d)	(.15)	.59	.09	(.05)
<b>Net earnings (loss) per Share</b>				
Basic net earnings (loss) per common share(d)	(.15)	1.14	.11	(.07)
Diluted net earnings (loss) per common share(d)	(.15)	.59	.09	(.07)
<b>Year Ended December 31, 2000</b>				
Net revenues	\$ 863,076	\$ 750,611	\$ 719,226	\$ 631,699
Operating loss	(218,965)	(57,452)	(46,721)	(26,609)
Loss from continuing operations(e)(f)	(83,513)	(26,001)	(35,200)	(27,684)
<b>Net loss(e)(f)(g)(i)</b>	<b>(80,285)</b>	<b>(21,063)</b>	<b>(27,738)</b>	<b>(18,897)</b>
<b>Loss per Share—Continuing Operations</b>				
Basic and diluted loss per common share(d)(h)	(.23)	(.07)	(.10)	(.08)
<b>Net loss per Share</b>				
Basic and diluted net loss per common share(d)(h)	(.22)	(.06)	(.08)	(.06)

(a) The Company recorded losses of \$11.6 million, \$6.7 million and \$0.4 million during the fourth, third and second quarters of 2001, respectively, related to the write-down of equity investments to fair value. The Company recorded losses of \$15.6 million and \$30.5 million during the fourth and third quarters of 2000, respectively, related to the write-down of equity investments to fair value.

(b) During the third and second quarters of 2001, the Company recorded pre-tax gains of \$468.0 million and \$49.8 million, respectively, related to the sale of the USAB stations.

(c) During the first quarter of 2001, the Company adopted Statement of Position 00-2, "Accounting By Producers or Distributors of Films." The Company recorded expense of \$9.2 million related to the cumulative effect of adoption.

35

(d) Per common share amounts for the quarters may not add to the annual amount because of differences in the average common shares outstanding during each period.

(e) The quarterly results include the operations of Styleclick.com since its acquisition on July 27, 2000, and PRC since its acquisition on April 5, 2000. During the third quarter of 2000, the Company recorded a pre-tax gain of \$104.6 million related to the Styleclick Transaction. During the fourth quarter of 2000, the Company recorded a pre-tax charge of \$145.6 million related to the impairment of Styleclick goodwill.

(f)

During the first quarter of 2000, the Company recorded a pre-tax gain of \$3.7 million related to the initial public offering of Hotels.

- (g) USAB is presented as a discontinued operation for 2000. For the fourth, third, second and first quarters of 2000, the after tax results of USAB were losses of \$18.0 million, \$14.4 million, \$15.2 million and \$11.8 million, respectively.
- (h) Earnings (loss) per common share data and shares outstanding retroactively reflect the impact of the two-for-one stock split of USA's common stock and Class B common stock paid on February 24, 2000. All share numbers give effect to such stock split.
- (i) USA Entertainment is presented as a discontinued operation for all years presented. For the fourth, third, second and first quarters of 2001, the after tax results of USA Entertainment were \$(10.5) million, \$22.4 million, \$23.6 million and \$17.1 million (net of cumulative effect of an accounting change of \$(9.2) million), respectively. For the fourth, third, second and first quarters of 2000, the after tax results of USA Entertainment were \$21.2 million, \$19.3 million, \$22.7 million and \$20.5 million, respectively.

#### NOTE 16—INDUSTRY SEGMENTS

The Company operates principally in the following industry segments: Home Shopping Network (including HSN International and HSN.com); Ticketmaster (Nasdaq: TMCS), which operates Ticketmaster, Ticketmaster.com, Citysearch and Match.com; Hotels (Nasdaq: ROOM); Electronic Commerce Solutions; Styleclick (OTC: IBUY); and Precision Response Corporation. The USA Entertainment Group is presented as discontinued operations and accordingly are excluded from the schedules below except for Assets, which are included in Corporate & other.

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating profit plus (1) depreciation and amortization, (2) amortization of cable distribution fees of \$44.0 million, \$36.3 million and \$26.7 million in fiscal years 2001, 2000 and 1999, respectively (3) amortization of non-cash distribution and marketing expense and (4) disengagement expenses (described below) of \$4.1 million in 2001. Adjusted EBITDA is presented here as a tool and as a valuation methodology used by management in evaluating the business. 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.

36

#### NOTE 16—INDUSTRY SEGMENTS (Continued)

The following is a reconciliation of Operating Income to Adjusted EBITDA for 2001, 2000 and 1999.

	Twelve Months Ended December 31,		
	2001	2000	1999
Operating loss	\$ (216,423)	\$ (349,746)	\$ (48,842)
Depreciation and amortization	432,139	565,742	205,843
Amortization of cable distribution fees	43,975	36,322	26,680
Amortization of non-cash distribution and marketing	26,384	11,665	—
Amortization of non cash compensation expense	7,800	12,740	6,423
Disengagement expenses	4,052	—	—
Adjusted EBITDA	\$ 297,927	\$ 276,723	\$ 190,104

  

	Years Ended December 31,		
	2001	2000	1999
(In Thousands)			
<b>Revenues</b>			
HSN-U.S.(a)	\$ 1,658,904	\$ 1,533,271	\$ 1,332,911
Ticketing	579,679	518,565	442,742
Hotels.com	536,497	327,977	124,113
Precision Response	298,678	212,471	—
Match.com	49,249	29,122	9,000
Citysearch and related	46,108	50,889	27,329
Electronic Commerce Solutions/Styleclick	34,229	46,603	49,202
HSN-International and other(b)	272,569	245,714	8,917
Other	—	—	6,894
Intersegment Elimination	(7,053)	—	—
<b>Total</b>	\$ 3,468,860	\$ 2,964,612	\$ 2,001,108
<b>Operating Profit (Loss)</b>			
HSN-U.S.(a),(c)	\$ 103,866	\$ 130,442	\$ 137,670
Ticketing	25,351	25,453	32,503
Hotels.com	15,811	9,166	5,654
Precision Response	(40,857)	(7,282)	—
Match.com	(3,004)	(12,484)	(7,451)
Citysearch and related	(171,351)	(207,004)	(119,521)
Electronic Commerce Solutions/Styleclick	(73,145)	(240,085)	(51,701)

HSN International and other(b)	(34,907)	4,641	(4,517)
Corporate & other	(46,494)	(52,593)	(41,479)
Intersegment Elimination	8,307	—	—
<b>Total</b>	<b>\$ (216,423)</b>	<b>\$ (349,746)</b>	<b>\$ (48,842)</b>

37

#### Adjusted EBITDA

HSN-U.S.(a)	\$ 230,280	\$ 236,752	\$ 214,893
Ticketing	106,248	99,375	93,432
Hotels.com	81,449	52,641	18,891
Precision Response	26,044	35,165	—
Match.com	16,512	6,241	(400)
Citysearch and related	(44,417)	(66,356)	(60,444)
Electronic Commerce Solutions/Styleclick	(58,364)	(60,227)	(41,652)
HSN International and other(b)	(25,306)	10,740	(4,505)
Corporate & other	(34,519)	(37,608)	(30,111)
<b>Total</b>	<b>\$ 297,927</b>	<b>\$ 276,723</b>	<b>\$ 190,104</b>

#### Assets

HSN-U.S.	1,704,335	1,729,266	1,601,470
Ticketing	1,109,661	1,089,965	1,004,277
Hotels.com	643,835	555,613	202,666
Precision Response	850,485	795,531	—
Match.com	83,032	73,293	77,316
Citysearch and related	209,212	364,631	573,632
Electronic Commerce Solutions/Styleclick	33,111	61,025	28,623
HSN International and other	212,549	133,654	37,840
Corporate & other	1,693,630	843,312	1,625,336
<b>Total</b>	<b>\$ 6,539,850</b>	<b>\$ 5,646,290</b>	<b>\$ 5,151,160</b>

#### Depreciation and amortization of intangibles and cable distribution fees

HSN-U.S.	\$ 122,115	\$ 106,059	\$ 83,796
Ticketing	80,897	73,922	60,846
Hotels.com	48,662	39,215	13,237
Precision Response	66,901	42,447	—
Match.com	19,516	18,725	7,051
Citysearch and related	106,700	130,207	59,077
Electronic Commerce Solutions/Styleclick	14,589	179,854	3,251
HSN-International and other	9,601	6,099	12
Corporate & other	7,133	5,536	5,253
<b>Total</b>	<b>\$ 476,114</b>	<b>\$ 602,064</b>	<b>\$ 232,523</b>

38

#### Capital expenditures

HSN-U.S.	\$ 42,615	\$ 34,122	\$ 33,412
Ticketing	24,465	23,282	23,789
Hotels.com	16,022	2,859	1,092
Precision Response	25,775	43,505	—
Match.com	3,268	2,485	—
Citysearch and related	5,017	9,262	11,328
Electronic Commerce Solutions/Styleclick	2,292	5,047	13,657
HSN-International and other	6,031	18,105	13,746
Corporate & other	5,051	21,756	4,673
<b>Total</b>	<b>\$ 130,536</b>	<b>\$ 160,423</b>	<b>\$ 101,697</b>

(a) Includes estimated revenue in 2000 generated by homes lost by HSN following the sale of USA Broadcasting to Univision, which is estimated to be \$6.2 million. Adjusted EBITDA for these homes is estimated at \$0.9 million.

(b) Includes impact of foreign exchange fluctuations, which reduced revenue by \$44.0 million and \$36.3 million in 2001 and 2000, respectively, if the results are translated from Euros to U.S. dollars at a constant exchange rate, using 1999 as the base year.



- (c) 2001 includes \$4.1 million of costs incurred related to the disengagement of HSN from USA Broadcasting stations. Amounts primarily related to payments to cable operators and related marketing expenses in the disengaged markets.

#### NOTE 17—FINANCIAL INSTRUMENTS

The additional disclosure below of the estimated fair value of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies when available. The carrying values of all financial instruments approximates their respective fair values.

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In Thousands)				
Cash and cash equivalents	\$ 978,377	\$ 978,377	\$ 244,223	\$ 244,223
Long-term investments	64,731	64,731	48,949	48,949
Long-term obligations	(577,891)	(577,891)	(576,514)	(576,514)

39

#### NOTE 18—MARKETABLE SECURITIES AND INVESTMENTS HELD FOR SALE

At December 31, 2001, marketable securities available-for-sale were as follows (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agencies	\$ 147,106	\$ 230	\$ (217)	\$ 147,119
Non-US government securities and other fixed Term obligations	22,350	—	—	22,350
Corporate debt securities	1,970	25	—	1,995
Total marketable securities	171,426	255	(217)	171,464
Investment held for sale	—	—	—	—
<b>Total</b>	<b>\$ 171,426</b>	<b>\$ 255</b>	<b>\$ (217)</b>	<b>\$ 171,464</b>

Income tax expense of \$15 were recorded on these securities for the year ended December 31, 2001.

The contractual maturities of debt securities classified as available-for-sale as of December 31, 2001 are as follows (in thousands):

	Amortized Cost	Estimated Fair Values
Due in one year or less	\$ 65,922	\$ 66,035
Due after one year through two years	7,461	7,398
Due after two through five years	22,977	22,956
Due over five years	75,066	75,075
<b>Total</b>	<b>\$ 171,426</b>	<b>\$ 171,464</b>

At December 31, 2000, marketable securities available-for-sale were as follows (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	\$ 81,066	\$ 9	\$ (14)	\$ 81,061
U.S. Government and agencies	26,928	118	(12)	27,034
Certificate of deposit	10,175	20	—	10,195
Treasury Bill	8,048	14	—	8,062
Total debt securities	126,217	161	(26)	126,352
Investment held for sale	10,041	—	(9,291)	750
<b>Total Marketable Securities</b>	<b>\$ 136,258</b>	<b>\$ 161</b>	<b>\$ (9,317)</b>	<b>\$ 127,102</b>

Income tax benefit of \$3.6 million was recorded on these securities for the year ended December 31, 2000.

The contractual maturities of debt securities classified as available-for-sale as of December 31, 2000 are as follows (in thousands):

Amortized Cost	Estimated Fair Values

Due in one year or less	\$ 113,865	\$ 113,976
Due after one year through two years	997	1,012
Due after two through five years	2,002	2,019
Due over five years	9,353	9,345
<b>Total</b>	<b>\$ 126,217</b>	<b>\$ 126,352</b>

40

## USA INTERACTIVE AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 19—EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

At December 31, 2001, USA beneficially owned 46.7% of the outstanding common stock of Hot Networks AG, a German stock corporation, the subsidiaries of which operate electronic retailing operations in Europe. This investment is accounted for using the equity method. Due to the significance of the results of Hot Networks, AG, in relation to USA's results, summary financial information for Hot Networks AG is presented below. There were no significant operations in 1999.

	As of and for the Years Ended December 31,	
	2001	2000
	(In Thousands)	
Current assets	\$ 17,597	\$ 6,943
Non-current assets	157,274	42,784
Current liabilities	46,085	37,531
Non-current liabilities	194,249	23,668
Net sales	8,215	6,242
Gross profit	277	1,301
Net loss	(51,453)	(20,254)

To date, the Company has contributed approximately \$125.3 million, including \$105.5 million in 2001, and recorded equity losses in unconsolidated subsidiaries of \$30.5 million, including \$27.6 million in 2001.

#### NOTE 20—SAVOY SUMMARIZED HISTORICAL FINANCIAL INFORMATION (Discontinued operation)

The Company has not prepared separate financial statements and other disclosures concerning Savoy because management has determined that such information is not material to holders of the Savoy Debentures, all of which have been assumed by the Company as a joint and several obligor. The information presented is reflected at Savoy's historical cost basis.

#### Summary Consolidated Statements of Operations

	Years Ended December 31,		
	2001	2000	1999
	(In Thousands)		
Net sales	\$ 3,591	\$ 6,678	\$ 7,890
Operating expenses	118	3,236	3,431
Operating income	3,473	3,442	4,459
Net income	5,681	6,354	7,143

41

#### Summary Consolidated Balance Sheets

	December 31,	
	2001	2000
	(In Thousands)	
Current assets	\$ 10,709	\$ —
Non-current assets	53,563	158,561
Current liabilities	4,861	17,021
Non-current liabilities	44,530	38,902

#### NOTE 21—DISCONTINUED OPERATIONS

## Sale of USA Broadcasting

In August 2001, the Company completed its previously announced sale of all of the capital stock of certain USA Broadcasting ("USAB") subsidiaries that own 13 full-power television stations and minority interests in four additional full-power stations to Univision Communications Inc. ("Univision"). Total cash proceeds were \$1.1 billion, of which \$510.4 million was collected in fiscal year 2001 and \$589.6 million in January 2002. The gain on the sale of the stations of \$517.8 million, net of tax of \$377.4 million. USAB is presented as a discontinued operation for all periods presented. The revenues for USAB were \$19.7 million and \$8.6 million in the years ended 2000 and 1999, respectively. The loss for USAB was \$59.4 million (net of tax benefit of \$21.3 million) and \$44.1 million (net of tax benefit of \$12.1 million) in the years ended 2000 and 1999, respectively.

## 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 ("VUE") (the "VUE Transaction"). VUE is controlled by Vivendi and its subsidiaries, with the common interests owned 93.06% by Vivendi, 5.44% by USA and 1.5% by Mr. Diller, Chairman and CEO of USA.

In connection with the VUE Transaction, USA and its subsidiaries received the following at the closing: (i) approximately \$1.62 billion in cash, debt-financed by VUE, subject to tax-deferred treatment for a 15-year period, (ii) a \$750 million face value Class A preferred interest in VUE, with a 5% annual paid-in-kind dividend and a 20-year term, to be settled in cash at its then face value at maturity; (iii) a \$1.75 billion face value Class B preferred interest in VUE, with a 1.4% annual paid-in-kind dividend, a 3.6% annual cash dividend, callable and puttable after 20 years, to be settled by Universal at its then face value with a maximum of approximately 56.6 million USA common shares, provided that Universal may substitute cash in lieu of shares of USA common stock (but not USA Class B common stock), at its election; (iv) a 5.44% common interest in VUE, generally callable by Universal after five years and puttable by USA after eight years, which may be settled in either Vivendi stock or cash, at Universal's election, and (v) a cancellation of Universal's USANi LLC interests that were exchangeable into USA common shares including USANi LLC interests obtained from Liberty in connection with a related transaction. In connection with the transaction, USA has retired approximately 321 million shares previously owned by Vivendi, thereby reducing USA's fully diluted shares to 477 million shares.

42

Related to the transaction, Liberty exchanged 7,079,726 shares of USANi LLC for shares of USA common stock, and subsequently transferred to Universal 25,000,000 shares of USA common stock, its remaining 38,694,982 shares of USANi LLC, as well as the assets and liabilities of Liberty Programming France (which consist primarily of 4,921,250 shares of multiThematiques S.A., a French entity), in exchange for 37,386,436 Vivendi ordinary shares.

USA contributed to VUE USA Cable, which includes USA Network, SCI FI Channel, TRIO and Newsworld International; Studios USA, which produces and distributes television programming; USA Films, which produces and distributes films. Vivendi contributed the film, television and theme park businesses of its subsidiary, Universal Studios, Inc. In addition, USA issued to Universal ten-year warrants to acquire shares of USA common stock as follows: 24,187,094 shares at \$27.50 per share; 24,187,094 shares at \$32.50 per share; and 12,093,547 shares at \$37.50 per share. Barry Diller, USA's chairman and chief executive officer, will receive a common interest in VUE with a 1.5% profit sharing percentage, with a minimum value of \$275.0 million, in return for his agreeing to specified non-competition provisions and agreeing to serve as chairman and chief executive officer of VUE. USA and Mr. Diller have agreed that they will not compete with Vivendi's television and filmed entertainment businesses (including VUE) for a minimum of 18 months. The transaction has been accounted for as an asset sale. The after-tax gain associated with this transaction is preliminarily estimated at \$3.5 billion.

The USA Entertainment Group is presented as a discontinued operation for all periods presented. The revenues the USA Entertainment Group were \$1.8 billion, \$1.6 billion and \$1.4 billion in the years ended 2001, 2000 and 1999, respectively. The net income, net of the effect of minority interest, for the USA Entertainment Group was \$61.8 million (net of tax expense of \$106.4 million), \$83.8 million (net of tax expense of \$69.0 million) and \$85.7 million (net of tax expense of \$74.5 million) in the years ended 2001, 2000 and 1999, respectively.

43

## NOTE 22—EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of Basic and Diluted earnings per share. All share numbers have been adjusted to retroactively reflect the impact of the two-for-one stock split of USA's common stock and Class B common stock paid on February 24, 2000. All share numbers give effect to such stock split.

	Years Ended December 31,		
	2001	2000	1999
(In Thousands, Except Per Share Data)			
<b>Continuing Operations:</b>			
<b>Numerator:</b>			
Earnings (loss)	\$ (186,799)	\$ (172,398)	\$ (69,212)
<b>Denominator:</b>			
Denominator for basic and diluted earnings per share- weighted average shares	374,101	359,688	327,816
Basic earnings (loss) per share	\$ (.50)	\$ (.48)	\$ (.21)
Diluted earnings (loss) per share	\$ (.50)	\$ (.48)	\$ (.21)
Years Ended December 31,			
	2001	2000	1999
(In Thousands, Except Per Share Data)			

## Earnings (loss) before cumulative effect of accounting change, net of tax:

<b>Numerator:</b>			
Net earnings (loss)	\$	392,795	\$ (147,983) \$ (27,631)
Elimination of minority interest		74,066	— —
<b>Numerator for diluted earnings (loss) per share</b>	<b>\$</b>	<b>466,861</b>	<b>\$ (147,983) \$ (27,631)</b>
<b>Denominator:</b>			
Denominator for basic earnings per share-weighted average shares		374,101	359,688 327,816
Effect of dilutive securities:			
Stock options		30,089	— —
LLC shares exchangeable into Common Stock		361,153	— —
<b>Diluted weighted average shares</b>		<b>765,343</b>	<b>359,688 327,816</b>
Basic earnings (loss) per share	\$	1.05	\$ (.41) \$ (.08)
Diluted earnings (loss) per share		.61	\$ (.41) \$ (.08)

44

	Years Ended December 31,		
	2001	2000	1999
	(In Thousands, Except Per Share Data)		
<b>Net Earnings (loss):</b>			
<b>Numerator:</b>			
Net earnings (loss)	\$	383,608	\$ (147,983) \$ (27,631)
Elimination of minority interest		74,066	— —
<b>Numerator for diluted earnings (loss) per share</b>	<b>\$</b>	<b>457,674</b>	<b>\$ (147,983) \$ (27,631)</b>
<b>Denominator:</b>			
Denominator for basic earnings per share — weighted average shares		374,101	359,688 327,816
Effect of dilutive securities:			
Stock options		30,089	— —
LLC shares exchangeable into Common Stock		361,153	— —
<b>Diluted weighted average shares</b>		<b>765,343</b>	<b>359,688 327,816</b>
Basic earnings (loss) per share	\$	1.03	\$ (.41) \$ (.08)
Diluted earnings (loss) per share		.60	\$ (.41) \$ (.08)

**NOTE 23—NOTES OFFERING AND GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION**

On November 23, 1998, the Company and USANi LLC as co-issuers completed an offering of \$500.0 million 6<sup>3</sup>/<sub>4</sub>% Senior Notes due 2005 (the "Old Notes"). In May 1999, the Old Notes were exchanged in full for \$500.0 million of new 6<sup>3</sup>/<sub>4</sub>% Senior Notes due 2005 (the "Notes") that have terms that are substantially identical to the Old Notes. Interest is payable on the Notes on May 15 and November 15 of each year, commencing May 15, 1999. The Notes are jointly, severally, fully and unconditionally guaranteed by certain subsidiaries of the Company, including Holdco, a non-wholly owned, direct subsidiary of the Company, and all of the subsidiaries of USANi LLC (other than subsidiaries that are, individually and in the aggregate, inconsequential to USANi LLC on a consolidated basis) (collectively, the "Subsidiary Guarantors"). All of the Subsidiary Guarantors (other than Holdco) (the "Wholly Owned Subsidiary Guarantors") are wholly owned, directly or indirectly, by the Company or USANi LLC, as the case may be.

The following tables present condensed consolidating financial information for the years ended December 31, 2000, 1999 and 1998 for: (1) the Company on a stand-alone basis, (2) Holdco on a stand-alone basis, (3) USANi LLC on a stand-alone basis, (4) the combined Wholly Owned Subsidiary Guarantors (including Wholly Owned Subsidiary Guarantors that are wholly owned subsidiaries of USANi LLC), (5) the combined non-guarantor subsidiaries of the Company (including the non-guarantor subsidiaries of USANi LLC (collectively, the "Non-Guarantor Subsidiaries")), and (6) the Company on a consolidated basis.

Separate financial statements for each of the Wholly Owned Subsidiary Guarantors are not presented and such Wholly Owned Subsidiary Guarantors are not filing separate reports under the Securities Exchange Act of 1934 because the Company's management has determined that the information contained in such documents would not be material to investors.

45

As of and for the Year Ended December 31, 2001

	USA	Holdco	USANi LLC	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
Current assets	\$ 585,212	\$ —	\$ 749,559	\$ 303,977	\$ 677,452	\$ 31,116	\$ 2,347,316

Property and equipment net	—	—	24,755	165,686	208,546	—	398,987
Goodwill and other intangible assets, net	71,598	—	2,260	1,057,098	2,163,526	—	3,294,482
Investment in subsidiaries	4,057,110	1,319,505	6,102,427	—	—	(11,479,042)	—
Other assets	92,111	—	2,262	(88,296)	942,386	(487,741)	460,722
Net current assets of discontinued operations	—	—	—	108,609	(65,271)	(4,995)	38,343
<b>Total assets</b>	<b>\$ 4,806,031</b>	<b>\$ 1,319,505</b>	<b>\$ 6,881,263</b>	<b>\$ 1,547,074</b>	<b>\$ 3,926,639</b>	<b>\$ (11,940,662)</b>	<b>\$ 6,539,850</b>
Current liabilities	\$ 238,934	\$ —	\$ (15,540)	\$ 296,135	\$ 438,519	\$ 46,675	\$ 1,004,723
Long-term debt, less current portion	—	—	498,515	311	45,546	—	544,372
Other liabilities	621,596	—	—	1,240,405	471,788	(2,097,255)	236,534
Minority interest	—	—	(141,389)	(108,769)	442,450	514,396	706,688
Interdivisional equity	—	—	—	4,037,890	2,800,451	(6,838,341)	—
Stockholder's equity	3,945,501	1,319,505	6,539,677	(65,504)	—	(7,793,678)	3,945,501
Net non current liabilities of discontinued operations	—	—	—	(3,853,394)	(272,115)	4,227,541	102,032
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,806,031</b>	<b>\$ 1,319,505</b>	<b>\$ 6,881,263</b>	<b>\$ 1,547,074</b>	<b>\$ 3,926,639</b>	<b>\$ (11,940,662)</b>	<b>\$ 6,539,850</b>
Revenue	\$ —	\$ —	\$ —	\$ 1,646,599	\$ 1,829,915	\$ (7,654)	\$ 3,468,860
Operating expenses	(10,725)	—	(34,154)	(1,583,297)	(2,073,069)	15,962	(3,685,283)
Interest expense, net	(21,757)	—	4,650	(839)	(1,239)	—	(19,185)
Other income (expense), net	(154,317)	64,557	367,373	(4,025)	(38,284)	(287,153)	(51,849)
Provision for income taxes	—	—	—	10,412	(12,862)	—	(2,450)
Minority interest	—	—	—	41,043	62,065	—	103,108
Net (loss) income from continuing operations	\$ (186,799)	\$ 64,557	\$ 337,869	\$ 109,893	\$ (233,474)	\$ (278,845)	\$ (186,799)
Net (loss) income from discontinued operations	61,747	—	—	85,070	(23,323)	(61,747)	61,747
Gain on disposal of Broadcasting Stations	517,847	—	—	—	—	—	517,847
Net income (loss) from cumulative effect of accounting change	(9,187)	1,901	6,470	2,438	(11,625)	816	(9,187)
<b>Net income (loss)</b>	<b>\$ 383,608</b>	<b>\$ 66,458</b>	<b>\$ 344,339</b>	<b>\$ 197,401</b>	<b>\$ (268,422)</b>	<b>\$ (339,776)</b>	<b>\$ 383,608</b>
Cash flows from operations	\$ (36,116)	\$ —	\$ (25,770)	\$ 213,466	\$ 146,755	\$ —	\$ 298,335
Cash flows used in investing activities	31,993	—	(7,774)	(81,279)	92,112	—	35,052
Cash flows from financing activities	4,123	—	359,725	(78,937)	(228,655)	—	56,256
Net Cash used by discontinued operations	—	—	—	335,362	12,812	—	348,174
Effect of exchange rate	—	—	(417)	269	(3,515)	—	(3,663)
Cash at the beginning of the period	—	—	51,911	(2,427)	194,739	—	244,223
<b>Cash at the end of the period</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 377,675</b>	<b>\$ 386,454</b>	<b>\$ 214,248</b>	<b>\$ —</b>	<b>\$ 978,377</b>

46

As of and for the Year Ended December 31, 2000

	USA	Holdco	USANi LLC	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
Current assets	\$ 356,726	\$ —	\$ 14,159	\$ 321,848	\$ 571,341	\$ (316,057)	\$ 948,017
Property and equipment net	—	—	24,203	172,833	211,914	—	408,950
Goodwill and other intangible assets, net	73,693	—	—	1,082,220	2,213,935	—	3,369,848
Investment in subsidiaries	3,362,672	1,284,166	6,032,521	—	—	(10,679,359)	—
Other assets	167,447	—	627,433	290,605	79,926	(766,109)	399,302
Net current assets of discontinued operations	—	—	—	67,326	(11,401)	30,592	86,517
Net non current assets on discontinued operations	—	—	—	5,604,397	112,684	(5,283,425)	433,656
<b>Total assets</b>	<b>\$ 3,960,538</b>	<b>\$ 1,284,166</b>	<b>\$ 6,698,316</b>	<b>\$ 7,539,229</b>	<b>\$ 3,178,399</b>	<b>\$ (17,014,358)</b>	<b>\$ 5,646,290</b>
Current liabilities	\$ 12,406	\$ —	\$ —	\$ 497,324	\$ 376,718	\$ (207,071)	\$ 679,377
Long-term debt, less current portion	—	—	498,212	3,910	49,644	—	551,766
Other liabilities	508,261	—	—	671,942	317,904	(1,431,662)	66,445
Minority interest	—	—	60,373	174,081	439,699	234,678	908,831
Interdivisional equity	—	—	—	6,157,635	2,134,252	(8,291,887)	—
Stockholders' equity	3,439,871	1,284,166	6,139,731	34,337	(139,818)	(7,318,416)	3,439,871
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,960,538</b>	<b>\$ 1,284,166</b>	<b>\$ 6,698,316</b>	<b>\$ 7,539,229</b>	<b>\$ 3,178,399</b>	<b>\$ (17,014,358)</b>	<b>\$ 5,646,290</b>
Revenue	\$ —	\$ —	\$ —	\$ 1,645,046	\$ 1,320,636	\$ (1,070)	\$ 2,964,612
Operating expenses	(15,184)	—	(37,369)	(1,570,808)	(1,692,067)	1,070	(3,314,358)
Interest expense, net	(26,195)	—	22,208	860	(4,241)	2	(7,366)
Other income (expense), net	(132,361)	65,026	372,389	(87,802)	(20,875)	(147,360)	49,017
Provision for income taxes	1,342	—	(27,351)	39,823	(57,664)	—	(43,850)

Minority interest	—	—	—	171,901	153,615	(145,969)	179,547
Net (loss) income from continuing operations	\$ (172,398)	\$ 65,026	\$ 329,877	\$ 199,020	\$ (300,596)	\$ (293,327)	\$ (172,398)
Net (loss) income from discontinued operations	\$ 24,415	—	—	\$ 38,005	\$ (13,590)	\$ (24,415)	\$ 24,415
Cash flows from operations	\$ (34,654)	\$ —	\$ (9,403)	\$ 72,631	\$ 58,747	\$ —	\$ 87,321
Cash flows used in investing activities	\$ 18,711	\$ —	\$ (63,754)	\$ (91,640)	\$ (271,333)	\$ —	\$ (408,016)
Cash flows from financing activities	\$ 15,943	\$ —	\$ (215,328)	\$ 32,249	\$ 225,299	\$ —	\$ 58,163
Net Cash used by discontinued operations	—	—	—	131,788	(45,522)	—	86,266
Effect of exchange rate	—	—	—	3,352	(6,039)	—	(2,687)
Cash at the beginning of the period	—	—	265,652	(22,159)	179,683	—	423,176
Cash at the end of the period	\$ —	\$ —	\$ (22,833)	\$ 126,221	\$ 140,835	\$ —	\$ 244,223

47

As of and for the Year Ended December 31, 1999

	USA	Holdco	USANi LLC	Wholly Owned Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
Revenue	\$ —	\$ —	\$ —	\$ 1,290,550	\$ 710,558	\$ —	\$ 2,001,108
Operating expenses	(10,074)	—	(27,171)	(1,213,177)	(799,528)	—	(2,049,950)
Interest expense, net	(10,713)	—	(11,837)	4,934	(12,079)	—	(29,695)
Other income (expense), net	(56,290)	85,199	433,996	39,559	20,943	(527,676)	(4,269)
Provision for income taxes	7,865	—	—	(7,390)	(29,033)	—	(28,558)
Minority interest	—	—	—	91	56,650	(14,589)	42,152
Net (loss) income from continuing operations	\$ (69,212)	\$ 85,199	\$ 394,988	\$ 114,567	\$ (52,489)	\$ (542,265)	\$ (69,212)
Net (loss) income from discontinued operations	\$ 41,581	\$ —	\$ —	\$ 265,262	\$ 15,851	\$ (281,113)	\$ 41,581
Cash flows from operations	\$ (33,127)	\$ —	\$ (31,200)	\$ 95,419	\$ 46,668	\$ —	\$ 77,760
Cash flows used in investing activities	\$ (401,082)	\$ —	\$ (53,645)	\$ (57,319)	\$ 43,728	\$ —	\$ (468,318)
Cash flows from financing activities	\$ 434,209	\$ —	\$ (147,082)	\$ (129,182)	\$ (57,741)	\$ —	\$ 100,204
Net cash used by discontinued operations	—	—	—	333,911	(66,260)	—	267,651
Effect of exchange rate	—	—	—	—	(123)	—	(123)
Cash at the beginning of the period	—	—	151,160	102,308	192,534	—	446,002
Cash at the end of the period	\$ —	\$ —	\$ (80,767)	\$ 345,137	\$ 158,806	\$ —	\$ 423,176

#### Note 24—SUBSEQUENT EVENTS (UNAUDITED)

##### 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.

48

**Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

## (a) List of Documents filed as part of this Report

## (1)—Consolidated Financial Statements

Report of Independent Auditors: Ernst & Young LLP.  
 Consolidated Statement of Operations for the Years Ended December 31, 2001, 2000 and 1999.  
 Consolidated Balance Sheets as of December 31, 2001 and 2000.  
 Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999.  
 Consolidated Statements of Cash Flows for Years Ended December 31, 2001, 2000 and 1999.  
 Notes to Consolidated Financial Statements.

## (2)—Consolidated Financial Statement Schedules

Schedule Number		Page Number
II	—Valuation and Qualifying Accounts	132
(3)	—Home Shopping Network, Inc. and Subsidiaries Financial Statements	133
	Report of Independent Auditors: Ernst & Young LLP	
	Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999	134
	Consolidated Balance Sheets as of December 31, 2001 and 2000	135
	Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999	136
	Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999	137
	Notes to Consolidated Financial Statements	138
(4)	—USANi LLC and Subsidiaries Financial Statements	
	Report of Independent Auditors: Ernst & Young LLP	160
	Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999	161
	Consolidated Balance Sheets as of December 31, 2001 and 2000	162
	Consolidated Statements of Members' Equity for the Years Ended December 31, 2001, 2000 and 1999	163
	Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999	164
	Notes to Consolidated Financial Statements	165

All other financial statements and schedules not listed have been omitted since the required information is included in the Consolidated Financial Statements or the notes thereto, or is not applicable or required.

## (5)—Exhibits (numbered in accordance with Item 601 of Regulation S-K)

Exhibit Number	Description
2.1	Agreement and Plan of Exchange and Merger, dated as of August 25, 1996, by and among Silver King Communications, Inc., HouseAcquisition Corp., Home Shopping Network, Inc. and Liberty HSN, Inc., filed as Appendix B to USA's Definitive Proxy Statement, dated November 20, 1996, is incorporated herein by reference.
2.2	Agreement and Plan of Merger by and among Silver King Communications, Inc., Thames Acquisition Corporation and Savoy Pictures Entertainment, Inc., as amended and restated as of August 13, 1996, filed as Appendix A to USA's Definitive Proxy Statement, dated November 20, 1996, is incorporated herein by reference.
2.3	Investment Agreement, dated as of October 19, 1997, among Universal Studios, Inc., HSN, Inc., Home Shopping Network, Inc. and Liberty Media Corporation, as amended and restated as of December 18, 1997, filed as Appendix A to USA's Definitive Proxy Statement, dated January 12, 1998, is incorporated herein by reference.
2.4	Amended and Restated Agreement and Plan of Reorganization, dated as of August 12, 1998, among CitySearch, Inc., Tiberius, Inc., USA Networks, Inc., Ticketmaster Group, Inc., Ticketmaster Corporation and Ticketmaster Multimedia Holdings, Inc., filed as Exhibit 10 to USA's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, is incorporated herein by reference.
2.5	Agreement and Plan of Merger, dated as of March 20, 1998, by and among USA, Brick Acquisition Corp. and Ticketmaster Group, Inc., filed as Exhibit 10.61 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, is incorporated herein by reference.
2.6	Agreement and Plan of Merger, dated as of January 12, 2000, by and among Precision Response Corporation, USA and P Acquisition Corp., filed as Exhibit 1 to USA's Schedule 13D filed on January 19, 2000, is incorporated herein by reference.
2.7	Amended and Restated Agreement and Plan of Recapitalization and Merger, dated as of July 15, 2001, by and

among USA Networks, Inc., Expedia, Inc., Taipei, Inc., Microsoft Corporation and Microsoft E-Holdings, Inc., filed as Annex A to USA's Registration Statement on Form S-4 (No. 333-68120), is incorporated herein by reference.

- 2.8 Transaction Agreement, dated as of December 16, 2001, among Vivendi Universal, S.A., Universal Studios, Inc., USA Networks, Inc., USANi LLC and Liberty Media Corporation, filed as Appendix A to USA's Definitive Proxy Statement, dated March 25, 2002, is incorporated herein by reference.
- 3.1 Restated Certificate of Incorporation of USA filed as Exhibit 3.1 to USA's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000, is incorporated herein by reference.
- 3.2 Amendment to Restated Certificate of Incorporation of USA, filed as Exhibit A the USA's Definitive Information Statemet, filed on November 19, 2001, is incorporated herein by reference.
- 3.3† Amendment to By-Laws of USA, dated January 31, 2002.
- 3.4† Amended and Restated By-Laws of USA.

50

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- 4.1 Indenture, dated as of November 23, 1998, among USA, USANi LLC, the Guarantors party thereto, and The Chase Manhattan Bank, as Trustee, filed as Exhibit 4.1 to USA's Registration Statement on Form S-4 (No. 333-71305) (the "USA S-4"), is incorporated herein by reference.
  - 4.2 Form of 6<sup>3</sup>/<sub>4</sub>% Senior Notes due 2005 (included as Exhibit B to Exhibit 4.1 to the USA S-4).
  - 4.3† Certificate of Designations of Series A Cumulative Convertible Preferred Stock of USA.
  - 4.4 Indenture, dated as of June 25, 1993, for the Savoy 7% Convertible Subordinated Debentures due July 1, 2003, filed as Exhibit 4(d) to Savoy's S-1 Registration Statement No. 33-63192, is incorporated herein by reference.
  - 4.5 First Supplemental Indenture, dated as of October 24, 1993, for the Savoy 7% Convertible Debentures due July 1, 2003, filed as Exhibit 4(e) to Savoy's S-1 Registration Statement No. 33-70160, is incorporated herein by reference.
  - 4.6 Second Supplemental Indenture, dated as of December 17, 1993, for the Savoy 7% Convertible Debentures due July 1, 2003, filed as Exhibit 4(e) to Savoy's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, is incorporated herein by reference.
  - 4.7 Third Supplemental Indenture, dated as of December 19, 1996, for the Savoy 7% Convertible Debentures due July 1, 2003 filed as Exhibit 4.1 to Savoy's Form 8-K, dated December 19, 1996, is incorporated herein by reference.
  - 4.8† Equity Warrant Agreement, dated as of February 4, 2002, between USA and The Bank of New York, as equity warrant agent.
  - 10.1 Form of Affiliation Agreements between USA and Home Shopping, filed as Exhibit 10.2 to USA's Registration Statement on Form 10, as amended, is incorporated herein by reference.
  - 10.2\* Form of 1992 Stock Option and Restricted Stock Plan between USA and Home Shopping, filed as Exhibit 10.6 to USA's Registration Statement on Form 8, as amended, is incorporated herein by reference.
  - 10.3 Form of Indemnification Agreement, filed as Exhibit 10.10 to USA's Registration Statement on Form 10, as amended, is incorporated herein by reference.
  - 10.4 Form of Loan Agreement, as amended, by and between Silver King Capital Corporation, Inc. and Roberts Broadcasting Company of Denver, filed as Exhibit 10.17 to USA's Annual Report on Form 10-K for the fiscal year ended August 31, 1994, is incorporated herein by reference.
  - 10.5 Form of Shareholder Agreement by and among Silver King Capital Corporation, Inc., Roberts Broadcasting Company of Denver, Michael V. Roberts and Steven C. Roberts, filed as Exhibit 10.18 to USA's Annual Report on Form 10-K for the fiscal year ended August 31, 1994, is incorporated herein by reference.

51

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- 10.6 Limited Liability Company Agreement, Funding Agreement and Form of First Amendment to LLC, Registration Rights Agreement and associated documents between USA, the Class A Shareholders of Blackstar Communications, Inc. and Fox Television Stations, Inc., dated as of June 27, 1995 and August 18,



- 1995, filed as Exhibit 10.23 to USA's Annual Report on Form 10-K for the fiscal year ended August 31, 1995, are incorporated herein by reference.
- 10.7\* 1986 Stock Option Plan for Employees, dated as of August 1, 1986, filed as Exhibit 10.33 to Home Shopping's Form S-1 Registration Statement No. 33-8560, is incorporated herein by reference.
- 10.8\* First, Second, Third and Fourth Amendments to the 1986 Stock Option Plan for Employees, filed as Exhibit 10.31 to Home Shopping's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, are incorporated herein by reference.
- 10.9\* Form of 1990 Executive Stock Award Program, dated as of October 17, 1990, as amended, filed as Exhibit 10.23 to Home Shopping's Annual Report on Form 10-K for the fiscal year ended August 31, 1991, is incorporated herein by reference.
- 10.10\* Home Shopping Network, Inc. Employee Stock Purchase Plan and Part-Time Employee Stock Purchase Plan, filed as Exhibit 10.30 to Home Shopping's Annual Report on Form 10-K for the fiscal year ended December 31, 1994, is incorporated herein by reference.
- 10.11\* Home Shopping Network, Inc. 1996 Stock Option Plan for Employees, filed as Exhibit A to the Home Shopping Definitive Proxy Statement, dated March 28, 1996, is incorporated herein by reference.
- 10.12 Exchange Agreement, dated as of December 20, 1996, by and between the Registrant and Liberty HSN, Inc. filed as Exhibit 10.25 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.
- 10.13\* Equity and Bonus Compensation Agreement, dated as of August 24, 1995, between Barry Diller and the Registrant filed as Exhibit 10.26 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.
- 10.14\* Silver King Communications, Inc. 1995 Stock Incentive Plan filed as Appendix G to USA's Definitive Proxy Statement, dated November 20, 1996, is incorporated herein by reference.
- 10.15\* Silver King Communications, Inc. Directors' Stock Option Plan filed as Appendix H to USA's Definitive Proxy Statement, dated November 20, 1996, is incorporated herein by reference.
- 10.16 Shareholders Agreement, dated December 12, 1996, relating to Jupiter Shop Channel Co. Ltd. among Jupiter Programming Co. Ltd., Home Shopping Network, Inc. and Jupiter Shop Channel Co. Ltd. filed as Exhibit 10.35 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.
- 10.17 Services and Trademark License Agreement, dated as of December 12, 1996, between Home Shopping Network, Inc. and Jupiter Shop Channel Co. Ltd., filed as Exhibit 10.36 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.

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- 10.18 Purchase and Sale Agreement among Home Shopping Network GmbH, Home Shopping Network, Inc., Quelle Schickedanz AG & Co., Mr. Thomas Kirch and Dr. Georg Kofler, dated as of January 16, 1997, filed as Exhibit 10.37 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.
- 10.19 Joint Venture Agreement between Quelle Schickedanz AG & Co., Home Shopping Network, Inc., Home Shopping Network GmbH, Mr. Thomas Kirch and Dr. Georg Kofler, filed as Exhibit 5.3 to the Purchase and Sale Agreement, filed as Exhibit 10.38 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.
- 10.20 License Agreement, dated as of January 1, 1996, between Ronald A. Katz Technology Licensing, L.P. and Home Shopping Network, Inc., filed as Exhibit 10.39 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.
- 10.21 Shareholder Agreement, dated as of April 26, 1996, by and among Channel 66 of Vallejo, California, Inc., Whitehead Media of California, Inc. and Silver King Capital Corporation, Inc., filed as Exhibit 10.40 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.
- 10.22 Loan Agreement, dated as of April 26, 1996, by and between SKC Investments, Inc. and Channel 66 of Vallejo, California, Inc., filed as Exhibit 10.41 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.
- 10.23 Joint Venture and License Agreement, dated as of June 12, 1992, between Savoy Pictures Entertainment, Inc. and Home Box Office, Inc. (confidential treatment for portions thereof granted), filed as Exhibit 10(a) to Savoy's S-1 Registration Statement No. 33-57956, is incorporated herein by reference.

- 10.24 License Agreement, dated as of June 12, 1992, among Savoy Pictures Entertainment, Inc. and Home Box Office, Inc. (confidential treatment of portions thereof granted), filed as Exhibit 10(b) to Savoy's S-1 Registration Statement No. 33-57956, is incorporated herein by reference.
- 10.25 Warrant Agreement, dated as of March 2, 1992, between Savoy Pictures Entertainment, Inc. and Allen & Company Incorporated, filed as Exhibit 10(f) to Savoy's S-1 Registration Statement No. 33-57956, is incorporated herein by reference.
- 10.26 Warrant Agreement, dated as of March 2, 1992, between Savoy Pictures Entertainment, Inc. and GKH Partners, L.P., filed as Exhibit 10(g) to Savoy's S-1 Registration Statement No. 33-57956, is incorporated herein by reference.
- 10.27 Warrant Agreement, dated as of April 20, 1994, between Savoy and GKH Partners, L.P., filed as Exhibit 10.2 to Savoy's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, is incorporated herein by reference.

- 10.28 \$1,600,000,000 Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York as Co-Documentation Agents, filed as Exhibit 10.50 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, is incorporated herein by reference.
- 10.29 First Amendment and Consent, dated as of June 24, 1998, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents, filed as Exhibit 10.39 to the S-4, is incorporated herein by reference.
- 10.30 Second Amendment, dated as of October 9, 1998, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents, filed as Exhibit 10.40 to the USA S-4, is incorporated herein by reference.
- 10.31 Third Amendment, dated as of April 29, 1999, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents, filed as Exhibit 10.39 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, is incorporated herein by reference.
- 10.32 Fourth Amendment, dated as of January 31, 2000, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents, filed as Exhibit 10.40 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, is incorporated herein by reference.
- 10.33 Fifth Amendment, dated as of January 31, 2001, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents, filed as Exhibit 10.41 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is incorporated herein by reference.
- 10.34† Sixth Amendment, dated as of December 7, 2001, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents.
- 10.35 Form of Governance Agreement among HSN, Inc., Universal Studios, Inc., Liberty Media Corporation and Barry Diller, dated as of October 19, 1997, filed as Appendix B to USA's Definitive Proxy Statement, dated January 12, 1998, is incorporated herein by reference.

- 10.36 Form of Stockholders Agreement among Universal Studios, Inc., Liberty Media Corporation, Barry Diller, HSN, Inc. and The Seagram Company Ltd. dated as of October 19, 1997, filed as Appendix C to USA's Definitive Proxy Statement, dated January 12, 1998, is incorporated herein by reference.

- 10.37 Form of Spinoff Agreement between Liberty Media Corporation and Universal Studios, Inc. dated as of October 19, 1997, filed as Appendix D to USA's Definitive Proxy Statement, dated January 12, 1998, is incorporated herein by reference.
- 10.38 Form of Amended and Restated Governance Agreement, among USA, Vivendi Universal, S.A., Universal Studios, Inc., Liberty Media Corporation and Barry Diller, dated as of December 16, 2001, filed as Appendix C to USA's Definitive Proxy Statement, dated March 25, 2002, is incorporated herein by reference.
- 10.39 Form of Amended and Restated Stockholders Agreement among Universal Studios, Inc., Liberty Media Corporation, Barry Diller and Vivendi Universal, S.A., dated as of December 16, 2001, filed as Appendix D to USA's Definitive Proxy Statement, dated March 25, 2002, is incorporated herein by reference.
- 10.40\* HSN, Inc. 1997 Stock and Annual Incentive Plan, filed as Exhibit F to USA's Definitive Proxy Statement, dated January 12, 1998, is incorporated herein by reference.
- 10.41\* Employment Agreement between Michael Sileck and USA, dated October 12, 1999, filed as Exhibit 10.47 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, is incorporated herein by reference.
- 10.42\* Employment Agreement between Dara Khosrowshahi and USA, dated September 21, 2000, filed as Exhibit 10.1 to USA's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, is incorporated herein by reference.
- 10.43†\* Employment Agreement between Julius Genachowski and USA, dated August 9, 2000.
- 10.44 Exchange Agreement, dated as of October 19, 1997, by and among HSN, Inc. (renamed USA Networks, Inc.), Universal Studios, Inc. (and certain of its subsidiaries) and Liberty Media Corporation (and certain of its subsidiaries), filed as Exhibit 10.60 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, is incorporated herein by reference.
- 10.45\* USA Networks, Inc. 2000 Stock and Annual Incentive Plan, filed as Exhibit 10.1 to USA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, is incorporated herein by reference.
- 10.46\* USA Networks, Inc. Deferred Compensation Plan For Non-Employee Directors, filed as Exhibit 10.2 to USA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, is incorporated herein by reference.
- 21.1† Subsidiaries of USA
- 23.1†† Consent of Ernst & Young LLP

\* Reflects management contracts and compensatory plans.

† Previously filed with Form 10-K for the year ended December 31, 2001.

†† Filed herewith.

55

## SIGNATURES

Pursuant to the Requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

USA INTERACTIVE  
(Registrant)

/s/ WILLIAM J. SEVERANCE

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

July 24, 2002

56

## VALUATION AND QUALIFYING ACCOUNTS

	Balance At Beginning of Period	Charges To Earnings	Charges To Other Accounts(2)	Deductions- Describe(1)	Balance At End of Period
Allowance for doubtful accounts:					
Year ended December 31, 2001	\$ 11,734	\$ 18,963	\$ 640	\$ (15,085)	\$ 16,252
Year ended December 31, 2000	\$ 4,970	\$ 12,738	\$ 2,957	\$ (8,931)	\$ 11,734
Year ended December 31, 1999	\$ 2,465	\$ 7,862	\$ —	\$ (5,357)	\$ 4,970

(1) Write-off fully reserved accounts receivable.

(2) Amounts relate to the acquisition of Precision Corporation and merger with Styleclick.com in 2000.

### QuickLinks

[Documents Incorporated By Reference](#)

[EXPLANATORY NOTE](#)

[REPORT OF INDEPENDENT AUDITORS](#)

[USA INTERACTIVE AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS](#)

[USA INTERACTIVE AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS](#)

[ASSETS](#)

[LIABILITIES AND STOCKHOLDERS' EQUITY](#)

[USA INTERACTIVE AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY](#)

[USA INTERACTIVE AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS](#)

[USA INTERACTIVE AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[GENERAL](#)

[SUBSEQUENT EVENTS \(UNAUDITED\)](#)

[USA INTERACTIVE AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[PART IV](#)

[SIGNATURES](#)

[USA NETWORKS, INC. AND SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

## EXHIBIT 23.1

### CONSENT OF ERNST & YOUNG LLP

We consent to the incorporation by reference in the following registration statements of our report dated July 23, 2002 with respect to the consolidated financial statements and financial statement schedule of USA Interactive, as amended, included in this Form 10-K/A for the year ended December 31, 2001, filed with the Securities and Exchange Commission:

**Commission File No.**

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Form S-8, No. 333-03717  
Form S-8, No. 333-18763  
Form S-8, No. 333-34146  
Form S-8, No. 333-37284  
Form S-8, No. 333-37286  
Form S-8, No. 333-48863  
Form S-8, No. 333-48869  
Form S-8, No. 333-57667  
Form S-8, No. 333-57669  
Form S-8, No. 333-65335  
Form S-8, No. 333-53909  
Form S-3, No. 333-81576  
Form S-4, No. 333-68120  
Form S-3, No. 333-88850  
Form S-3, No. 333-90448

New York, New York  
July 23, 2002

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