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# UNITED STATES 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, 2002

### INTERACTIVE CORP

(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 Interactive**  
(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.

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

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

Common Stock	431,237,119
Class B Common Stock	64,629,996
<b>Total</b>	<b>495,867,115</b>

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

## EXPLANATORY NOTE

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

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

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

## INDEX

	<u>Page</u>
<b>PART II</b>	
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	1
Item 8. Consolidated Financial Statements and Supplementary Data	28
<b>PART IV</b>	
Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K	91

## PART II

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

#### **General**

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

Through May 7, 2002, the Company also included the USA Entertainment Group, consisting of USA Cable, including USA Network and Sci Fi Channel and Emerging Networks TRIO, Newsworld International and Crime; Studios USA, which produces and distributes television programming; and USA Films, which produces and distributes films. USA Entertainment was contributed to a joint venture with Vivendi Universal, S.A. ("Vivendi") on May 7, 2002 (the "VUE Transaction") and the results of operations and statement of position of USA Entertainment are presented as a discontinued operation. See Note 20 in the Notes to Consolidated Financial Statements for further discussion of the VUE Transaction.

#### **Recent Developments**

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

In connection with the VUE Transaction, shares of USANi LLC held by Liberty Media Corporation ("Liberty") were exchanged for 7.1 million USA shares, with the remaining approximately 320.9 million USANi LLC shares held by Vivendi (including USANi shares obtained from Liberty) cancelled.

On June 27, 2002, the Company and Liberty completed the exchange of Liberty's Home Shopping Network ("Holdco") shares, with the Company issuing an aggregate of 31.6 million shares of Common Stock and 1.6 million shares of Class B Common Stock. Therefore, at this time USA owns 100% of USANi LLC and Holdco. Previously, USA maintained control and management of Holdco and USANi LLC, and managed the businesses held by USANi LLC, in substantially the same manner, as they would have been if USA held them directly through wholly owned subsidiaries.

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

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

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

### **Contribution of the USA Entertainment Group to VUE**

On May 7, 2002, USA completed its previously announced transaction with Vivendi to create a joint venture called Vivendi Universal Entertainment LLLP ("VUE"). Vivendi and its subsidiaries control VUE, with the common interests owned 93.06% by Vivendi and its subsidiaries, 5.44% by USA and 1.5% by Mr. Diller, Chairman and CEO of USA (economic interests in a portion of his common interests have been assigned by Mr. Diller to three executive officers of USA).

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

### **Adoption of New Accounting Rules for Goodwill and Other Intangible Assets**

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," in its entirety. In connection with the adoption of this standard, the Company has not amortized any goodwill or indefinite-lived intangible assets during 2002. Prior to the adoption, all intangible assets were amortized over their estimated periods to be benefited, generally on a straight-line basis. Therefore, the results of operations for 2001 and 2000 reflect the amortization of goodwill and indefinite-lived intangible assets, while the results of operations for 2002 do not reflect such amortization (see Note 4—Goodwill and Other Intangible Assets for a pro forma disclosure depicting the Company's results of operations during 2001 and 2000 after applying the non-amortization provisions of SFAS No. 142). Goodwill amortization recorded in continuing operations for the years ended December 31, 2001 and 2000 was \$215.4 million and \$383.1 million, respectively. Goodwill amortization recorded in discontinued operations for the years ended December 31, 2001 and 2000 was \$127.9 million and \$117.6 million, respectively. In connection with the implementation of SFAS No. 142, the Company was required to assess goodwill and indefinite-lived intangible assets for impairment. As previously discussed in USA's Form 10-Q for the quarter ended March 31, 2002, USA recorded a write-off before tax and minority interest of \$499 million related to the Citysearch and PRC businesses as a cumulative effect of accounting change. Although Citysearch and PRC are expected to generate positive cash flows in the future, due to cash flow discounting techniques to estimate fair value as required by the new rules, the future estimated discounted cash flows did not support current carrying values at the time of the evaluation on January 1, 2002. The Citysearch write-off was \$115 million, and the PRC write-off was \$384 million.

Adoption of the new standard resulted in a one-time, non-cash after-tax, after minority interest charge of \$461.4 million. The charge is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations as of January 1, 2002. See Note 4 for additional information regarding goodwill.

In addition, in the second quarter of 2002, USA recorded a further write-down of \$22.2 million related to PRC. The write-down resulted from contingent purchase price recorded in the second quarter.

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

### **Adjusted EBITDA**

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating profit (loss) plus (1) depreciation and amortization, including goodwill impairment; (2) amortization of cable distribution fees; (3) amortization of non-cash distribution and marketing expense and non-cash compensation expense; and (4) non-recurring items, including disengagement expenses and restructuring charges not impacting EBITDA. Adjusted EBITDA is presented here as a management tool and as a valuation methodology. Adjusted EBITDA does not purport to represent cash provided by operating activities. Adjusted EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Adjusted EBITDA may not be comparable to calculations of similarly titled measures presented by other companies.

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

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

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

### Revenue Presentation for Merchant Hotel Business

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

### Stock-Based Compensation

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

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

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

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

#### CONTINUING OPERATIONS

#### HSN-U.S.

#### Operating Results

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

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

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

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

### **Disengagement**

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

### **Ticketing Operations**

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

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

### **Hotels.com**

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

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

## Expedia

### Actual Results

USA completed its acquisition of a controlling interest in Expedia on February 4, 2002. Net revenues and Adjusted EBITDA for the period February 4, 2002 to December 31, 2002 were \$553.7 million and \$162.8 million, respectively. For the period February 4, 2002 to December 31, 2002,

6

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

### Supplemental Pro Forma Information

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

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

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

7

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

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

### PRC

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

### Match.com

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

advertising pursuant to an agreement with Universal TV (formerly USA Cable). Sufficient advertising has been secured to satisfy existing obligations. In 2002 and 2001 non-cash marketing was \$5.7 million and \$5.9 million, respectively.

## **Interval**

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

## **International TV Shopping and Other**

### **Operating Results**

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

8

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

### **Other Developments**

As previously disclosed, HSN entered into various transactions with its European partners, Georg Kofler and Thomas Kirch, to increase HSN's ownership in its European operations. The transactions were largely completed at the beginning of the third quarter, and the total purchase price was approximately \$100 million. As a result of the transactions, HSN increased its ownership interest to 100% of HOT Networks and approximately 90% of HSE-Germany, with Quelle, a large catalogue retailer based in Germany, owning the remainder. HOT Networks' principal assets are its direct and indirect interests in EUVÍA, a German limited partnership, and HSE-Italy (see below).

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

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

## **Citysearch and Related**

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

9

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

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

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

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

### **Restructuring Charges**

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

10

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### **Depreciation and Amortization and Other Income (Expense)**

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

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

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

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

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

### **Income Taxes**

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

### **Minority Interest**

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

11

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

### **Discontinued Operations**



The USA Entertainment Group, which was contributed to VUE on May 7, 2002, is presented as discontinued operations for all applicable periods presented. The net income before cumulative effect of accounting change of the USA Entertainment Group and USAB for the year ended December 31, 2002 and 2001 were \$28.8 million and \$61.7 million, respectively.

During the three months ended March 31, 2001, the USA Entertainment Group recorded expense of \$9.2 million related to the cumulative effect of adoption of Statement of Position 00-2 "Accounting By Producers or Distributors of Films."

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

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

#### **HSN-U.S.**

##### ***Operating Results***

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

12

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

##### ***Disengagement***

As noted in the Company's previous filings, the majority of the USAB stations sold to Univision are located in the largest markets in the country and aired HSN on a 24-hour basis. As of January 2002, HSN switched its distribution in these markets directly to cable carriage. As a result, HSN lost approximately 12 million homes and accordingly, HSN's operating results will be affected. Fortunately, sales from broadcast only homes are much lower than sales from cable homes. As a result, HSN's losses attributable to disengagement are expected to be limited. The disengagement costs are excluded from Adjusted EBITDA. Approximately \$4.1 of these costs were incurred in 2001. The Company has supplemented its discussion of HSN's results by including a comparison of 2001 to 2000, adjusted for the estimated impact of disengagement on revenues and Adjusted EBITDA. In September 2001, the New York market was disengaged. The estimated 2000 impact was lost revenue of \$6.2 million and lost Adjusted EBITDA of \$0.9 million.

##### ***Ticketing Operations***

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

13

## **Hotels.com**

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

## **PRC**

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

## **Match.com**

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

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

## **HSN-International and Other**

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

## **Citysearch and Related**

Net revenues in 2001 decreased by \$4.8 million to \$46.1 million compared to \$50.9 million in 2000 due primarily to decreased advertising revenue related to the city guides business. Cost related to revenues and other costs and expenses (including Ticketmaster corporate expenses) in 2001 decreased by \$26.9 million to \$90.5 million from \$117.4 million in 2000. The decrease in revenues and costs reflect Citysearch's initiatives to reduce operating costs and focus on higher margin products. In January 2002, Citysearch announced a further restructuring of its operations in pursuit of its strategy to achieve breakeven financial performance in 2003 (excluding Ticketmaster corporate expenses). Adjusted EBITDA loss in 2001 narrowed by \$21.9 million to \$44.4 million from \$66.3 million in 2000. Adjusted EBITDA in 2001 excludes \$11.4 million of non-cash distribution and marketing expense related to advertising provided by USA

Cable, consisting of \$9.1 million for cross promotion advertising and \$2.3 million related to barter arrangements for distribution arrangements secured from unaffiliated third parties and excludes \$1.0 million of one-time costs related to employee terminations. Excluding one-time items, Adjusted EBITDA loss in 2001 narrowed by \$20.4 million to \$43.4 million from \$63.8 million in 2000. One-time items include \$1.0 million of non-recurring costs related to employee

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

### **USA Electronic Commerce Solutions ("ECS")/Styleclick**

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

### **Discontinued Operations**

The USA Entertainment Group, which was contributed to VUE on May 7, 2002, is presented as discontinued operations for all applicable periods presented. The net income before cumulative effect of accounting change of the USA Entertainment Group and USAB for the year ended December 31, 2001 and 2000 were \$61.7 million and \$24.4 million, respectively.

During the three months ended March 31, 2001, the USA Entertainment Group recorded expense of \$9.2 million related to the cumulative effect of adoption of Statement of Position 00-2 "Accounting By Producers or Distributors of Films."

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

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

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

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

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

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

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

### **Income Taxes**

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

### **Minority Interest**

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

### **FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

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

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

In connection with the VUE Transaction, USA and its subsidiaries received the following at closing in May 2002: (i) approximately \$1.62 billion in cash, debt-financed by VUE, subject to tax-deferred treatment for a 15-year period, (ii) a \$750 million face value Class A preferred interest in VUE, with a 5% annual paid-in-kind dividend and a 20-year term, to be settled in cash at its then face value at maturity; (iii) a \$1.75 billion face value Class B preferred interest in VUE, with a 1.4% annual paid-in-kind dividend, a 3.6% annual cash dividend, callable and puttable after 20 years, to be settled by Vivendi at its then face value with a maximum of approximately 56.6 million USA common shares,

17

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provided that Vivendi may substitute cash in lieu of shares of USA common stock (but not USA Class B common stock), at its election; (iv) a 5.44% common interest in VUE, generally callable by Universal after five years and puttable by USA after eight years, which may be settled in either Vivendi stock or cash, at Universal's election, and (v) a cancellation of Universal's USANi LLC interests that had been exchangeable into USA common shares including USANi LLC interests obtained from Liberty in connection with the transaction.

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

On December 11, 2002, USA issued \$750.0 million of 7.0% Senior Notes resulting in cash proceeds of \$744.0 million. These Notes are due January 15, 2013 with interest payable January 15 and July 15, commencing on July 15, 2003. USANi LLC guarantees these Notes. The USANi LLC guaranty will terminate whenever the 6<sup>3</sup>/<sub>4</sub>% Senior Notes due 2005 co-issued by USA and USANi LLC cease to be outstanding or USANi LLC's obligations under such 6<sup>3</sup>/<sub>4</sub>% Senior Notes and the related indenture are discharged or defeased pursuant to the terms thereof.

The \$1.6 billion credit facility, including the \$600.0 million revolving credit facility, was terminated by USA in connection with the VUE Transaction and all guarantees were released under the credit agreement. As a result of the termination of the credit facility, all guarantees of USA's and USANi's \$500.0 million aggregate principal amount of 6<sup>3</sup>/<sub>4</sub>% Senior Notes due 2005 were also released. As of December 31, 2002, the Company repurchased \$47.0 million face value of its 6<sup>3</sup>/<sub>4</sub>% Senior Notes due 2005 and through February 15, 2003, the Company purchased an additional \$23.3 million face value of these notes. In addition, USA may purchase from time to time, in the open market or in privately negotiated transactions, additional 6<sup>3</sup>/<sub>4</sub>% Senior Notes subject to market conditions, pricing and other factors.

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

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

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

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

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

18

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

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

In the third quarter of 2002, USA changed its primary form of equity-based incentive compensation from stock options to restricted stock units. The Company intends to issue restricted stock units that will vest in future periods instead of stock options although the Company's public subsidiaries may issue

employee stock options in 2003 as they complete the transition to 100% restricted stock. For restricted stock units issued, the accounting charge will be measured at the grant date and amortized ratably as non-cash compensation over the vesting term.

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

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

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

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

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

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### **Funding obligations of HOT Networks for EUVÍA**

HOT Networks holds a 48.6% limited partnership interest in EUVÍA, a German limited partnership, as well as pooling arrangements that allow for control of EUVÍA. EUVÍA, through certain subsidiaries, operates two businesses, "Neun Live TV," a game show oriented TV channel, and a travel oriented shopping TV channel under the brand name "Sonnenklar." In connection with the partnership formed to operate these businesses, HOT Networks has undertaken to fund 100% of the cash requirements and operating losses up to Euro 179 million, with the funding obligations terminating if EUVÍA remains profitable for two consecutive fiscal years. Through December 31, 2002, HOT Networks funded EUVÍA with approximately Euro 59.1 million. HOT Networks expects that no additional funding will be required prior to EUVÍA achieving profitability for two consecutive fiscal years. In the event EUVÍA's current business plan is revised to require additional funding to achieve profitability for two consecutive years, HOT Networks may have additional contractual rights exercisable on or after June 30, 2003 that reduce its ongoing funding obligations below Euro 179 million assuming it has met certain funding thresholds as of June 30, 2003. Although it is not expected that these additional contractual rights will prove relevant in light of EUVÍA's current business plan, HOT Networks continues to actively monitor EUVÍA's funding requirements.

### **Funding Obligations of TV Travel Shop**

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

### **Recent Ratings Agency Actions**

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

### **Hotels.com and Expedia Cooperation**

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

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### **Non-GAAP Financial Measures**

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

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

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

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

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

## **Performance Based Measurements**

### Definitions of Measurements that USA will Use

- Adjusted EBITA (Earnings before Interest, Taxes, Amortization of Intangibles, Non-cash compensation and non-cash marketing, other income and expense, and non-recurring items, including restructuring reserves)
- Adjusted Net Income (Amounts that have been, or ultimately will be, settled in cash and the measure will be computed as net income plus (1) amortization of intangibles, non-cash distribution and marketing expense and non-cash compensation expense, (2) equity gains/losses on the VUE partnership interest, and (3) non-recurring or unusual items, including the cumulative effect of accounting changes, that have not or are not reasonably likely to recur within two years, all on an after-tax basis)
- Adjusted EPS (Adjusted Net Income divided by fully diluted shares outstanding, including restricted stock issued without using the treasury method convention, as the denominator)

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

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

### Discussion of Non-Cash Items

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

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

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

### Non-Recurring Items

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

Reconciliation of Non-GAAP Measures to GAAP Measures and Presentation

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

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

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

**Liquidity Measurements**

Definition of Measurement that USA will Use

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

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

Discussion of Elements of Computation

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

Reconciliation of Non-GAAP Measures to GAAP Measures

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

**Contractual Obligations and Commercial Commitments**

Contractual Obligations	Payments Due by Period			
	Total	0-3 years	4-5 years	After 5 years
	(In Thousands)			
Long Term Debt	\$ 1,234,529	\$ 23,718	\$ 453,451	\$ 757,360
Capital Lease Obligations	2,594	2,594	—	—
Operating Leases	431,764	228,342	66,630	136,792
<b>Total Contractual Cash Obligations</b>	<b>\$ 1,668,887</b>	<b>\$ 254,654</b>	<b>\$ 520,081</b>	<b>\$ 894,152</b>
			<b>Amount of Commitment Expiration Per Period</b>	
<b>Other Commercial Commitments*</b>		<b>Total Amounts Committed</b>	<b>0-3 years</b>	
				(In Thousands)

Letters of Credit	\$	38,947	\$	38,947
Guarantees		30,142		30,142
<b>Total Commercial Commitments</b>	<b>\$</b>	<b>69,089</b>	<b>\$</b>	<b>69,089</b>

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

### Critical Accounting Policies

In connection with the issuance of Securities and Exchange Commission FR-60, the following disclosure is provided to supplement USA's accounting policies in regard to significant areas of judgment. Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with generally accepted accounting principles. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates. Because of the size of the financial statement elements they relate to, some of our accounting policies and estimates have a more significant impact on our financial statements than others:

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

24

- Our revenue recognition for HSN is described in Note 2. As noted, sales are reduced by incentive discounts and sales returns to arrive at net sales. HSN's sales policy allows merchandise to be returned at the customer's discretion within 30 days of the date of delivery and allowances for returned merchandise and other adjustments are provided based upon past experience. The estimated return percentage for 2002 and 2001 of 18.6% and 18.9%, respectively, was arrived at based upon empirical evidence of actual returns, and the percentage was applied against sales to arrive at net sales. Actual levels of product returned may vary from these estimates. The Company believes that actual returns on HSN product sales have not materially varied from estimates in any of the financial statement periods presented, although its systems only allowed HSN to track such information beginning in 2001.
- Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 6, and reflect management's assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and the probability of realization. Actual income taxes could vary from these estimates due to future changes in income tax law or based upon review of our tax returns by the IRS, as well as operating results of the Company that vary significantly from budgets.
- Merchandise inventories are valued at the lower of cost or market, cost being determined using the first-in, first-out method. Market is determined on the basis of net realizable value, giving consideration to obsolescence and other factors. Net realizable value is estimated by management based upon historical sales data, the age of inventory, the quantity of goods on hand and the ability to return merchandise to vendors. The actual net realizable value may vary from estimates due to changes in customer tastes or viewing habits, or errors in judgment made by merchandising personnel when ordering new products.
- The Company has entered into various arrangements that contain multiple elements, such as arrangements providing for distribution and other services to be provided by the third party to multiple USA business segments. Multi-element arrangements require that management assess the relative fair value of the elements based upon revenue forecasts and other factors. The actual fair value of the various services received may differ from these estimates.
- The Company has entered into various non-monetary transactions, principally related to barter advertising for goods and services which are recorded at the estimated fair value of the products or services received or given in accordance with the provisions of the Emerging Issues Task Force Issue No. 99-17, "Accounting for Advertising Barter Transactions." The actual fair value of the products and services received may differ from these estimates.
- The Company accounts for stock-based compensation issued to employees in accordance with APB 25, "Accounting for Stock Issued to Employees." In cases where exercise prices are less than fair value as of the grant date, compensation is recognized over the vesting period. For stock-based compensation issued to non-employees, the Company accounts for the grants in accordance with FASB Statement No. 123, "Accounting for Stock Based Compensation."

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

25



The Company also issued restricted stock. For restricted stock issued, the accounting charge will be measured at the grant date and amortized ratably as non-cash compensation over the vesting term.

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

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

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

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

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

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

- Some states and localities impose a transient occupancy or accommodation tax, or a form of sales tax, on the use or occupancy of hotel accommodations. Hotels operators generally collect and remit these taxes to the various tax authorities. Consistent with this practice, when a customer books a room through one of the Company's travel services, the hotel charges taxes based on the room rate paid to the hotel and the Company recovers an equivalent amount from the customer. The Company does not collect or remit taxes on the portion of the customer

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payment it retains, and some jurisdictions have questioned the Company's practice in this regard. While the applicable tax provisions vary among the jurisdictions, the Company believes it generally has sound arguments as to why it is not required to collect and remit such taxes. The Company is engaged in discussions with tax authorities in various jurisdictions to resolve this issue, but the ultimate resolution in any particular jurisdiction cannot be determined at this time. The Company does not believe, however, that the amount of liability of the Company on account of this issue, if any, will have a material adverse effect on its past or future financial results.

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

## Seasonality

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

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

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

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

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

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

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

**REPORT OF INDEPENDENT AUDITORS**

The Board of Directors and Shareholders  
InterActiveCorp:

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

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

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

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

/s/ Ernst & Young LLP

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

**USA INTERACTIVE AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

Amortization of intangibles and goodwill	146,183	294,583	314,768
Restructuring charges	74,386	14,414	—
Goodwill impairment	22,247	—	145,594
Operating profit (loss)	86,753	(216,423)	(349,746)
Other income (expense):			
Interest income	114,552	26,994	38,753
Interest expense	(44,755)	(46,179)	(46,119)
Gain on sale of subsidiary stock	—	—	108,343
Equity in losses in unconsolidated subsidiaries and other	(109,522)	(51,849)	(59,326)
Total other income (expense), net	(39,725)	(71,034)	41,651
Earnings (loss) from continuing operations before income taxes and minority interest	47,028	(287,457)	(308,095)
Income tax expense	(5,572)	(2,450)	(43,850)
Minority interest	(34,078)	103,108	179,547
Earnings (loss) from continuing operations before cumulative effect of accounting change	7,378	(186,799)	(172,398)
Gain on contribution of USA Entertainment to VUE, net of tax	2,378,311	—	—
Gain on disposal of Broadcasting stations, net of tax	—	517,847	—
Discontinued operations, net of tax	28,803	61,747	24,415
<b>Earnings (loss) before cumulative effect of accounting change</b>	<b>2,414,492</b>	<b>392,795</b>	<b>(147,983)</b>
Cumulative effect of accounting change, net of tax	(461,389)	(9,187)	—
Earnings (loss) before preferred dividends	1,953,103	383,608	(147,983)
Preferred dividend	(11,759)	—	—
<b>Net earnings (loss) available to common shareholders</b>	<b>\$ 1,941,344</b>	<b>\$ 383,608</b>	<b>\$ (147,983)</b>
<b>Loss per share from continuing operations before cumulative effect of accounting change available to common shareholders:</b>			
Basic loss per common share	\$ (0.01)	\$ (0.50)	\$ (0.48)
Diluted loss per common share	\$ (0.02)	\$ (0.50)	\$ (0.48)
<b>Earnings (loss) per share, before cumulative effect of accounting change available to common shareholders:</b>			
Basic earnings (loss) per common share	\$ 5.64	\$ 1.05	\$ (0.41)
Diluted earnings (loss) per common share	\$ 5.62	\$ 1.05	\$ (0.41)
<b>Net earnings (loss) per share available to common shareholders:</b>			
Basic earnings (loss) per common share	\$ 4.55	\$ 1.03	\$ (0.41)
Diluted earnings (loss) per common share	\$ 4.54	\$ 1.03	\$ (0.41)

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

## USA INTERACTIVE AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

#### ASSETS

	December 31, 2002	December 31, 2001
	(In Thousands, Except Share Data)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,998,114	\$ 392,176
Restricted cash equivalents	40,696	9,107
Marketable securities	1,929,058	757,665
Accounts and notes receivable, net of allowance of \$29,286 and \$16,252, respectively	310,811	263,934
Receivable from sale of USAB	—	589,625
Inventories, net	197,584	197,354
Deferred tax assets	2,007	39,946
Other current assets, net	143,952	84,727
Net current assets of discontinued operations	—	38,343
Total current assets	4,622,222	2,372,877
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Computer and broadcast equipment	552,484	349,145
Buildings and leasehold improvements	141,267	125,491
Furniture and other equipment	138,412	91,292
Land	15,802	15,665
Projects in progress	20,891	45,754

	868,856	627,347
Less: accumulated depreciation and amortization	(437,401)	(228,360)
	<u>431,455</u>	<u>398,987</u>
<b>Total property, plant and equipment</b>	<b>431,455</b>	<b>398,987</b>
<b>OTHER ASSETS:</b>		
Goodwill	5,997,842	3,070,129
Intangible assets, net	1,258,070	230,843
Cable distribution fees, net	167,249	158,880
Long-term investments	1,582,182	64,731
Preferred interest exchangeable for common stock	1,428,530	—
Note receivables and advances, net of current portion (\$13,365 and \$99,819, respectively, from related parties)	19,090	108,095
Advance to Universal	—	39,265
Deferred charges and other, net	156,473	83,261
	<u>10,609,436</u>	<u>3,755,204</u>
<b>Total other assets</b>	<b>10,609,436</b>	<b>3,755,204</b>
<b>TOTAL ASSETS</b>	<b>\$ 15,663,113</b>	<b>\$ 6,527,068</b>

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

## USA INTERACTIVE AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

#### LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2002	December 31, 2001
	(In Thousands, Except Share Data)	
<b>CURRENT LIABILITIES:</b>		
Accounts payable, trade	\$ 481,790	\$ 296,827
Accounts payable, client accounts	131,348	102,011
Cable distribution fees payable	39,107	32,795
Expedia deferred merchant bookings	149,348	—
Deferred revenue	115,554	75,256
Income tax payable	177,094	188,806
Current maturities of long-term obligations	24,957	33,519
Other accrued liabilities	422,258	262,727
	<u>1,541,456</u>	<u>991,941</u>
Total current liabilities	1,541,456	991,941
<b>Long-Term Obligations</b> , net of current maturities	1,211,145	544,372
<b>Other Long-Term Liabilities</b>	91,012	26,350
<b>Deferred Income Taxes</b>	2,385,006	210,184
<b>Net Long-term Liabilities of Discontinued Operations</b>	—	102,032
<b>Common Stock Exchangeable For Preferred Interest</b>	1,428,530	—
<b>Minority Interest</b>	1,074,501	706,688
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock- \$.01 par value; authorized 100,000,000 shares; 13,118,182 issued and outstanding as of December 31, 2002	131	—
Common stock—\$.01 par value; authorized 1,600,000,000 shares; issued 392,334,359 and 321,474,696 shares respectively, and outstanding 385,698,610 and 315,073,017 shares, respectively including 441,169 and 369,000 of restricted stock, respectively	3,852	3,147
Class B convertible common stock—\$.01 par value; authorized 400,000,000 shares; issued and outstanding 64,629,996 and 63,033,452 shares, respectively	646	630
Additional paid-in capital	5,941,141	3,918,401
Retained earnings	2,122,611	181,267
Accumulated other comprehensive income (loss)	15,697	(11,605)
Treasury stock—6,635,749 and 6,401,679 shares, respectively	(147,617)	(141,341)
Note receivable from key executive for common stock issuance	(4,998)	(4,998)
	<u>7,931,463</u>	<u>3,945,501</u>
Total shareholders' equity	7,931,463	3,945,501
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 15,663,113</b>	<b>\$ 6,527,068</b>

USA INTERACTIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Total	Preferred Stock		Common Stock		Class B Convertible Common Stock		Addit. Paid-in Capital	Retained Earnings (Accum. Deficit)	Accum. Other Comp. Income (Loss)	Treasury Stock	Note Receivable From Key Executive for Common Stock Issuance	
	\$	Shares	\$	Shares	\$	Shares						
(In Thousands)												
<b>Balance as of December 31, 1999</b>	\$ 2,769,729	\$ —	—	\$ 2,740	274,703	\$ 630	63,033	\$ 2,830,506	\$ (54,358)	\$ 4,773	\$ (9,564)	\$ (4,998)
Comprehensive income:												
Net loss for the year ended December 31, 2000	(147,983)	—	—	—	—	—	—	—	(147,983)	—	—	—
Decrease in unrealized gains in available for sale securities	(11,958)	—	—	—	—	—	—	—	—	(11,958)	—	—
Foreign currency translation	(3,640)	—	—	—	—	—	—	—	—	(3,640)	—	—
<b>Comprehensive loss</b>	<b>(163,581)</b>											
Issuance of common stock upon exercise of stock options	37,341	—	—	46	4,577	—	—	37,295	—	—	—	—
Income tax benefit related to stock options exercised	26,968	—	—	—	—	—	—	26,968	—	—	—	—
Issuance of stock in connection with PRC acquisition	887,371	—	—	322	32,265	—	—	887,049	—	—	—	—
Issuance of stock in connection with other transactions	11,950	—	—	4	217	—	—	11,946	—	—	—	—
Purchase of treasury stock	(129,907)	—	—	(57)	(5,837)	—	—	—	—	—	(129,850)	—
<b>Balance as of December 31, 2000</b>	<b>\$ 3,439,871</b>	<b>—</b>	<b>—</b>	<b>\$ 3,055</b>	<b>305,925</b>	<b>\$ 630</b>	<b>63,033</b>	<b>\$ 3,793,764</b>	<b>\$ (202,341)</b>	<b>\$ (10,825)</b>	<b>\$ (139,414)</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	9,116	—	—	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	123	—	—	5,357	—	—	—	—
Purchase of treasury stock	(1,928)	—	—	(1)	(91)	—	—	—	—	—	(1,927)	—
<b>Balance as of December 31, 2001</b>	<b>\$ 3,945,501</b>	<b>—</b>	<b>—</b>	<b>\$ 3,147</b>	<b>315,073</b>	<b>\$ 630</b>	<b>63,033</b>	<b>\$ 3,918,401</b>	<b>\$ 181,267</b>	<b>\$ (11,605)</b>	<b>\$ (141,341)</b>	<b>\$ (4,998)</b>
Comprehensive income:												
Net income for the year ended December 31, 2002	1,953,103	—	—	—	—	—	—	—	1,953,103	—	—	—
Increase in unrealized gains in available for sale securities	3,416	—	—	—	—	—	—	—	—	3,416	—	—
Foreign currency translation	23,886	—	—	—	—	—	—	—	—	23,886	—	—
<b>Comprehensive income</b>	<b>1,980,405</b>											
Issuance of securities in connection with the Expedia transaction	1,497,894	131	13,118	206	20,583	—	—	1,497,557	—	—	—	—
Issuance of common stock upon exercise of stock options	144,521	—	—	92	9,208	—	—	144,429	—	—	—	—
Income tax benefit related to stock options exercised	7,620	—	—	—	—	—	—	7,620	—	—	—	—
Issuance of stock in	61,871	—	—	22	2,369	—	—	61,849	—	—	—	—

connection with other transactions													
Issuance of stock for LLC Exchange	178,650	—	—	71	7,080	—	—	178,579	—	—	—	—	—
Issuance of stock for Holdco Exchange	750,695	—	—	316	31,620	16	1,597	750,363	—	—	—	—	—
Issuance of stock and warrants in VUE transaction	810,873	—	—	—	—	—	—	810,873	—	—	—	—	—
Common stock exchangeable for preferred interest	(1,428,530)	—	—	—	—	—	—	(1,428,530)	—	—	—	—	—
Dividend on preferred stock	(11,759)	—	—	—	—	—	—	—	(11,759)	—	—	—	—
Purchase of treasury stock	(6,278)	—	—	(2)	(234)	—	—	—	—	—	—	(6,276)	—
<b>Balance as of December 31, 2002</b>	<b>\$ 7,931,463</b>	<b>\$ 131</b>	<b>13,118</b>	<b>\$ 3,852</b>	<b>385,699</b>	<b>\$ 646</b>	<b>64,630</b>	<b>\$ 5,941,141</b>	<b>\$ 2,122,611</b>	<b>\$ 15,697</b>	<b>\$ (147,617)</b>	<b>\$ (4,998)</b>	

Accumulated other comprehensive income is comprised of unrealized (losses) gains on available for sale securities of \$3,455, \$39 and \$(5,561) at December 31, 2002, 2001 and 2000, respectively and foreign currency translation adjustments of \$12,242, \$(11,644) and \$(5,264) at December 31, 2002, 2001 and 2000, 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,		
	2002	2001	2000
	(In Thousands)		
<b>Cash flows from operating activities:</b>			
Earnings (loss) from continuing operations before cumulative effect of accounting change	\$ 7,378	\$ (186,799)	\$ (172,398)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	323,402	425,891	420,148
Amortization of cable distribution fees	53,680	43,975	36,322
Amortization of deferred financing costs	3,445	1,491	3,778
Non-cash distribution and marketing	37,344	26,385	11,665
Non-cash interest income	(22,448)	(3,729)	(8,735)
Non-cash compensation expense	15,899	7,800	12,740
Deferred income taxes	(46,913)	12,253	21,357
Equity in losses in unconsolidated subsidiaries and other	123,608	48,977	58,333
Gain on sale of subsidiary stock	—	—	(108,343)
Goodwill impairment	22,247	—	145,594
Minority interest	34,078	(103,108)	(179,547)
Increase in cable distribution fees	(74,314)	(47,393)	(64,876)
Changes in assets and liabilities:			
Accounts and notes receivable	70,908	18,844	(64,925)
Inventories	4,243	31,128	(44,892)
Accounts payable	(58,216)	38,914	27,468
Accrued liabilities and deferred revenue	214,956	(25,119)	(837)
Other, net	32,264	8,825	(5,531)
<b>Net Cash Provided By Operating Activities</b>	<b>741,561</b>	<b>298,335</b>	<b>87,321</b>
<b>Cash flows from investing activities:</b>			
Acquisitions, net of cash acquired	(560,465)	(198,641)	(144,743)
Capital expenditures	(165,555)	(130,536)	(160,423)
Recoupment of advance to Universal	39,422	59,821	77,330
Decrease (increase) in long-term investments and notes receivable	33,118	(122,413)	(33,890)
Purchase of marketable securities, net	(1,221,684)	(613,078)	(36,095)
Proceeds from sale of broadcast stations	589,625	510,374	—
Proceeds from VUE Transaction	1,618,710	—	—
Other, net	(18,257)	(31,576)	(11,395)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>314,914</b>	<b>(526,049)</b>	<b>(309,216)</b>
<b>Cash flows from financing activities:</b>			
Borrowings	29,159	23,086	64,840
Principal payments on long-term obligations	(81,015)	(22,331)	(99,684)
Purchase of treasury stock	(6,278)	(1,928)	(129,907)
Payment of mandatory tax distribution to LLC partners	(154,083)	(17,369)	(68,065)
Proceeds from 2002 Senior Notes, net	744,000	—	—
Repurchase of 1998 Senior Notes	(47,000)	—	—

Proceeds from subsidiary stock option exercises	87,842	12,234	93,189
Proceeds from issuance of common stock and LLC shares	151,708	80,932	210,642
Dividend	(10,222)	—	—
Other, net	2,510	(18,368)	(12,852)
<b>Net Cash Provided By Financing Activities</b>	<b>716,621</b>	<b>56,256</b>	<b>58,163</b>
<b>Net Cash (Used In) Provided By Discontinued Operations</b>	<b>(178,288)</b>	<b>348,174</b>	<b>86,266</b>
Effect of exchange rate changes on cash and cash equivalents	11,130	(3,663)	(2,687)
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>1,605,938</b>	<b>173,053</b>	<b>(80,153)</b>
Cash and cash equivalents at beginning of period	392,176	219,123	299,276
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 1,998,114</b>	<b>\$ 392,176</b>	<b>\$ 219,123</b>

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

## USA INTERACTIVE AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1—ORGANIZATION

##### GENERAL

USA Interactive ("USA" or the "Company") (Nasdaq: USAI) engages worldwide in the business of interactivity via the Internet, the television and the telephone. USA operates multiple brands across three areas: Electronic Retailing, Information and Services and Travel Services.

##### Electronic Retailing

**Home Shopping Network-U.S.** ("HSN-U.S.") consists primarily of the HSN television network, HSN.com, and the America's Store television network. HSN sells a variety of consumer goods and services by means of live, customer-interactive electronic retail sales programs. HSN operates two retail sales programs in the United States, each 24 hours a day, seven days a week: HSN and America's Store. HSN.com serves as an alternative store front that allows consumers to shop for merchandise from HSN's inventory, rather than just viewing the current product offering on HSN's television programming. HSN.com also offers additional inventory that is not available on HSN's television programming.

**International TV Shopping** consists primarily of Home Shopping Europe-AG ("HSE-Germany") and EUVÍA Media AG & Co. KG ("EUVÍA"). HSE-Germany operates a German-language home shopping business that is broadcast 24 hours a day to millions of households in Germany, Austria and Switzerland. EUVÍA operates two businesses, "Neun Live," a game-show oriented television channel and a travel-oriented shopping television channel under the brand name "Sonnenklar." International TV Shopping also includes USA's minority interests in home shopping businesses in Italy, China and Japan.

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

HSN currently owns a minority interest in Home Shopping Europe S.p.A ("HSE-Italy") of approximately 36% through its German subsidiary HOT Networks, leaving HSN with a passive interest without any funding obligations.

##### Information and Services

**Ticketing** consists primarily of Ticketmaster, ticketmaster.com and ReserveAmerica. Ticketmaster and ticketmaster.com provide offline and online automated ticketing services via the Internet, telephone and retail outlets and serve many of the foremost venues, entertainment facilities, promoters and professional sports franchises in the U.S.A. and in the U.K., Australia, Norway, Denmark, the Netherlands, Canada, Mexico and Ireland. ReserveAmerica is a leading provider of outdoor recreation reservation services and software to United States federal and state agencies for camping activities, recreation ticketing and other access privileges to public land attractions.

**Personals** consists primarily of Match.com, a leading subscription-based online matchmaking and dating service. Match.com and its network served approximately 725,000 subscribers as of December 31, 2002, offers single adults a convenient and private environment for meeting other singles through its own websites, as well as through its affiliate network which includes the AOL and MSN internet portals.

**Local Services** currently consist of Citysearch and Evite.com. Citysearch is a network of online local city guide sites that offer up-to-date local content for major cities in the United States and abroad. It also features a leading directory of local businesses in the United States and provides millions of listings, including local events, organizations and businesses. In addition to providing a free online invitation service, Evite.com offers reminder services, polling, electronic payment collection, photo sharing and maps.

**Precision Response Corporation**, ("PRC" or "Precision Response"), provides outsourced consumer care services, managing customer relationships for both large corporations and internet-focused companies for over 20 years. PRC offers an integration of teleservices, e-commerce customer care services, information,

technology and fulfillment services as part of a one-stop solution. PRC has developed proprietary Customer Relationship Management (CRM) technology for consumer care.

**USA Electronic Commerce Solutions LLC ("ECS") and Styleclick** have worked together to provide end-to-end e-commerce solutions to service ECS' third-party clients, including online store design, development, merchandising and marketing. During 2002, ECS accounted for substantially all of Styleclick's revenue.

## Travel Services

**Expedia** is a leading online travel agency in the United States, offering travel services provided by approximately 450 airlines, approximately 43,000 lodging properties, all major car rental companies, numerous cruise lines, and multiple-destination service providers such as restaurants, attractions and tour providers. In addition to Expedia.com, Expedia also operates localized versions (either alone or through joint ventures) in the United Kingdom, France, Germany, Italy, Netherlands and Canada. Expedia entered the U.S. corporate travel market through the acquisition of Metropolitan Travel in July 2002.

**Hotels.com** is a leading provider of discount hotel accommodations worldwide, providing service through its own websites, including hotels.com, its toll-free call centers, and through third-party marketing and distribution agreements. Hotels.com provides accommodations to travelers in hundreds of cities in North America, Europe, the Caribbean and Asia. Shares of Hotels.com Class A common stock trade on NASDAQ under the symbol ROOM.

**Interval International** is a leading membership-services company providing timeshare exchange and other value-added programs to its timeshare-owning members and resort developers.

**TV Travel Shop** is a UK company that owns and operates two UK television channels that sell packaged holidays and other travel products to viewers, TV Travel Shop and TV Travel Shop 2. TV Travel Shop also operates a related website and participates in a joint venture with Preussag's TUI Deutschland that operates TV Travel Shop Germany.

## Recent Developments

Through May 7, 2002, the Company also included the USA Entertainment Group, consisting of USA Cable, including USA Network and Sci Fi Channel and Emerging Networks TRIO, Newsworld International and Crime; Studios USA, which produces and distributes television programming; and USA Films, which produces and distributes films. USA Entertainment was contributed to a joint venture with Vivendi Universal, S.A. ("Vivendi") on May 7, 2002 (the "VUE Transaction") and the

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results of operations and statement of position of USA Entertainment are presented as a discontinued operation. See Note 20 for further discussion of the VUE Transaction.

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

On March 19, 2003, USA announced it would acquire the Expedia shares it does not currently own. See Note 24 for further discussion.

In connection with the VUE Transaction, shares of USANi LLC held by Liberty Media Corporation ("Liberty") were exchanged for 7.1 million USA shares, with the remaining approximately 320.9 million USANi LLC shares held by Vivendi (including USANi LLC shares obtained from Liberty) cancelled.

On June 27, 2002, the Company and Liberty completed the exchange of Liberty's Home Shopping Network ("Holdco") shares, with the Company issuing an aggregate of 31.6 million shares of Common Stock and 1.6 million shares of Class B Common Stock. Therefore, at this time USA owns 100% of USANi LLC and Holdco. Previously, USA maintained control and management of Holdco and USANi LLC, and managed the businesses held by USANi LLC, in substantially the same manner, as they would have been managed if USA held them directly through wholly owned subsidiaries.

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

On January 17, 2003, the Company completed its acquisition of the outstanding shares of Ticketmaster that it did not already own. The acquisition was accomplished by the merger of a wholly owned subsidiary of USA with Ticketmaster, with Ticketmaster surviving as a wholly owned subsidiary of USA. In the merger, each outstanding share of Ticketmaster Class A common stock and Ticketmaster Class B common stock (other than shares held by USA, Ticketmaster and their subsidiaries) was converted into the right to receive 0.935 of a share of USA common stock. USA issued an aggregate of approximately 45.5 million shares of USA common stock, and assumed approximately 8.9 million stock options and 4.2 million warrants in the merger. Shares of Ticketmaster Class B common stock, which prior to the merger traded on the Nasdaq National Market under the symbol "TMCS," were delisted from trading as of the close of the market on January 17, 2003.

## 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 EUVÍA based upon a pooling agreement allowing for the Company to elect a majority of the Board of Directors and to control the operations of EUVÍA. 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, including USA's ownership in Vivendi Universal Entertainment LLLP ("VUE"), 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.

## **Revenue Recognition**

### ***Electronic Retailing***

Revenues from electronic retailing 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 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 Network'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.

### ***HSN Sales Returns***

HSN's estimated return percentages are based on actual historical results. The cost of merchandise to be returned is estimated by applying each month's historical gross margin percentage to a multi-year analysis of estimated sales return rates. Shipping and handling return accruals are estimated using historical percentages of shipping and handling revenue to sales. The Company believes that actual returns on HSN product sales have not materially varied from estimates in any of the financial statement periods presented.

### ***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.

### ***Merchant Hotel***

Merchant hotel revenues are billed to customers in advance and included in deferred revenue until the customer's stay occurs. Hotels.com and Expedia both generate merchant hotel revenues. Hotels.com presents merchant hotel revenue at the gross amount charged to its customers while Expedia presents merchant hotel revenue net of the amount paid to the hotel property for the room. The determination of gross versus net presentation is based principally on each Company's consideration of Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" and Emerging Issues Task Force Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", including the weighing of the relevant qualitative factors regarding the companies' status as the primary obligor, and the extent of their pricing latitude and inventory risk. The method of revenue presentation by Hotels.com and Expedia does not impact gross profit, operating profit, net income, earnings per share or cash flows of either company, but rather revenues, cost of sales and gross profit margin.

The principal factor in determining gross versus net presentation by each company was the consideration of their relationship with the customer as the primary obligor. Both companies provide extensive customer service and support for their customers. Hotels.com acts as the principal in the transaction and is the party that the customer has transacted with. Expedia, which was founded as an

on-line travel agency, is a facilitator of matching customer demand with supply of travel properties, with the suppliers ultimately responsible for providing the service.

Both Hotels.com and Expedia have broad latitude to establish and change prices charged to customers.

Both Hotels.com and Expedia contract in advance with hotels and other lodging properties at wholesale prices. The number of rooms and the wholesale prices of the rooms are specifically identified for Hotels.com over the terms of their contracts, which generally range from 1 to 3 years, while the number of rooms and the prices of the rooms to Expedia may fluctuate over the terms of their contracts. Unsold hotel rooms may be returned by each Company with no obligation to the hotel properties within a period specified in each contract. Each Company bears the risk of loss for all rooms cancelled by a customer subsequent to the cutoff period. However, each Company has mitigated its risk of loss, principally by charging its customers a cancellation fee, and to date, losses have been insignificant. Furthermore, Hotels.com does purchase rooms occasionally on a prepaid basis whereby it bears the full, unmitigated inventory risk. The percentage of revenue of Hotels.com represented by prepaid rooms was approximately 0.6%, 3.1% and 4.0% in the years ended December 31, 2002, 2001 and 2000, respectively. Expedia does not have any such inventory risk.

Hotels.com believes that it is principally liable to its merchant hotel customers in all situations where the customer does not receive hotel services promised by Hotels.com, namely in the event that merchant hotel inventory sold by Hotels.com is unavailable, or that the room, or the hotel itself, does not have the amenities or is not of the general caliber described in Hotels.com's promotional materials. Expedia believes that the supplier hotel is principally liable in these situations. Both companies provide customer service support to help resolve issues, even though in the case of Expedia, such customer support could typically involve issues for which Expedia is not principally liable.

Due to the difference in revenue recognition, Hotels.com and Expedia classify credit card merchant fees, call center and data center costs and fees paid to fulfillment vendors differently. Based on Hotels.com gross revenue presentation, its costs of goods sold include the cost of the room. Credit card merchant fees, call center and data center costs support, but are not a component of, the cost of sales, and thus are treated as operating expenses below gross profit. In the periods presented, Hotels.com did not have costs related to fees paid to external fulfillment vendors for issuing airline tickets. Based on Expedia's net revenue presentation, credit card merchant fees, call center and data center costs, sales commissions and fees paid to fulfillment vendors for issuing airline tickets and related customer services are treated as cost of sales.

### ***Merchant Air***

Expedia generates revenue from merchant air transactions, whereby it is the merchant of record and determines the ticket price. The cost of the airline ticket is paid by Expedia to the airlines via the Airlines Reporting Corporation within a week after the customer purchases the ticket from Expedia. Cash paid by the customer at the time the reservation is recorded as deferred merchant bookings until the flight occurs and the costs to purchase the airline ticket is included in prepaid merchant bookings. When the flight occurs, Expedia records the difference between the deferred merchant bookings and the prepaid merchant bookings as revenue on a net basis.

### ***Agency Hotel, Air, Car and Cruise***

Agency revenues are derived from airline ticket transactions, certain hotel transactions as well as cruise and car rental reservations. Airline ticket transactions of Expedia comprise a substantial portion of these revenues, and represent both commissions and fees related to the sale of airline tickets. Airline ticket commissions are determined by individual airlines and are billed and collected through the Airline Reporting Corporation, an industry-administered clearinghouse. Fees from the sale of airline tickets also include (i) revenues from Expedia's global distribution partner, Express Fee, (ii) revenues where Expedia charges customers for processing and delivering a paper ticket via express mail if they choose not to have an electronic ticket or an electronic ticket is not available and (iii) since December 2002 service fees on certain tickets. In addition, certain contracts with suppliers contain override commissions typically related to achieving performance targets.

Agency revenues are recognized on air transactions when the reservation is made and secured by a credit card. A cancellation allowance is recognized on these revenues. Expedia and Hotels.com recognize agency revenues on hotel and car rental reservations, and Expedia cruise reservations, either on an accrual basis for payments from a commission clearinghouse or on receipt of commissions from an individual supplier. Override commissions are recognized at the end of each period based upon the Company's attainment of a certain target level. Agency revenues are presented on a net basis.

### ***Interval Exchange and Membership Revenues, Deferred Membership Revenue and Deferred Membership Costs***

Revenue, net of sales incentives from Interval membership agreements is deferred and recognized over the terms of the applicable agreements, ranging from one to five years, on a straight-line basis. Membership agreements are cancelable and refundable on a pro-rata basis. Direct costs of acquiring membership agreements and direct costs of sales related to deferred membership revenues are also deferred and amortized on a straight-line basis over the applicable membership terms.

Revenues from exchange fees are recognized when Interval provides confirmation of the vacation ownership exchange, at which time the fee is nonrefundable.

### ***TVTS***

Revenues from sales of package holidays, where TVTS acts as an agent for third party tour operators, primarily consist of commissions earned from those tour operators, and are reduced by discounts given and cancellations to arrive at net revenue. These commissions are recorded at the time of booking. Allowances for future cancellations are provided based upon past experience.

### ***Other***

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

### **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.

### **Restricted Cash**

Restricted cash is primarily used to collateralize outstanding letters of credit and an outstanding loan with HSE Germany. The letters of credit are extended to certain hotel properties to secure payment for the potential purchase of hotel rooms. No claims have been made against any letters of credit.

### **Marketable Securities**

The Company accounts for marketable securities in accordance with Statement of Financial Accounting Standard (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company invests in certain marketable debt securities, which consist primarily of short-to intermediate-term fixed income securities issued by U.S. government agencies and municipalities. The Company only invests in marketable securities with active secondary or resale markets to ensure portfolio liquidity and the ability to readily convert investments into cash to fund current operations, or satisfy other cash requirements as needed. All marketable securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, included in "Accumulated Other Comprehensive Income" on the statements of changes in shareholders' equity. The specific-identification method is used to determine the cost of all securities. The marketable securities are presented as current assets in the accompanying consolidated balance sheets, as they are intended to meet the short-term working capital needs of the Company.

The fair value of the investments is based on the quoted market price of the securities at the balance sheet dates. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Company employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Company evaluates, among other factors, the duration and extent to which the fair value is less than cost; the financial condition and near-term prospects of the issuer, including industry and sector

performance, changes in technology, and operational and financing cash flow factors; and the Company's intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

### **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 \$35.6 million and \$42.5 million at December 31, 2002 and 2001, respectively.

### **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.

40

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.

<u>Asset Category</u>	<u>Depreciation/Amortization Period</u>
Computer and broadcast equipment	1 to 7 Years
Buildings	25 to 40 Years
Leasehold improvements	2 to 40 Years
Furniture and other equipment	2 to 10 Years

### **Long-Lived Assets**

The Company's accounting policy regarding the assessment of the recoverability of the carrying value of long-lived assets, including 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 "New Accounting Pronouncements" for further information related to impairment or disposals of long-lived assets.

### **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 principally expensed in the period incurred. Advertising expense for the years ended December 31, 2002, 2001 and 2000 was \$178.7 million, \$72.2 million and \$62.5 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") is computed by dividing net income available to common shareholders 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 commitments to issue common stock were exercised resulting in the issuance of common stock that could share in the earnings of the Company, as well as its public subsidiaries.

### **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

41

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."

The Company has also issued restricted stock. For restricted stock issued to employees, the accounting charge is measured at the grant date and amortized ratably as non-cash compensation over the vesting term.

See "New Accounting Pronouncements" for further information related to the stock-based compensation.

### **Minority Interest**

Minority interest primarily represents Universal's and Liberty's ownership interest in USANi LLC through May 7, 2002, Liberty's ownership interest in Holdco through June 27, 2002, the public's ownership in TMCS until January 31, 2001, the public's ownership in Ticketmaster from January 31, 2001, the public's ownership interest in Hotels.com since February 25, 2000, the public's ownership interest in Styleclick since July 27, 2000, the partner's ownership interest in HSE-Germany since its consolidation as of January 1, 2000, the public's ownership in Expedia since February 4, 2002 and certain minority ownerships in EUVÍA and Interval. The Company has classified \$117.5 million of redeemable preferred equity interests issued by EUVÍA as minority interest. The redeemable equity interests are due in 2006, but EUVÍA has the right to extend maturity to 2016 based on meeting certain financial covenants. The amount is only due to the holder under German law to the extent sufficient funds in excess of fixed capital at EUVÍA are available.

### **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 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 by recording income or losses as non-operating income (expense) for differences in the fair value of equity issued and amounts received.

During the year ended December 31, 2000, the Company recorded a gain of \$108.3 million related to the issuance of Styleclick's shares in the completed merger of Internet Shopping Network and Styleclick.com and the Hotels.com initial public offering.

### **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.

42

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

### **New Accounting Pronouncements**

#### ***Accounting for Goodwill and Other Intangible Assets***

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," in its entirety. In connection with the adoption of this standard, the Company has not amortized any goodwill or indefinite-lived intangible assets during 2002. Prior to the adoption, all intangible assets were amortized over their estimated periods to be benefited, generally on a straight-line basis. Therefore, the results of operations for 2001 and 2000 reflect the amortization of goodwill and indefinite-lived intangible assets, while the results of operations for 2002 do not reflect such amortization (see Note 4—Goodwill and Other Intangible Assets for a pro forma disclosure depicting the Company's results of operations during 2001 and 2000 after applying the non-amortization provisions of SFAS No. 142). Goodwill amortization recorded in continuing operations for the years ended December 31, 2001 and 2000 was \$215.4 million and \$383.1 million, respectively. Goodwill amortization recorded in discontinued operations for the years ended December 31, 2001 and 2000 was \$127.9 million and \$117.6 million, respectively. In connection with the implementation of SFAS No. 142, the Company was required to assess goodwill and indefinite-lived intangible assets for impairment. As previously discussed in USA's Form 10-Q for the quarter ended March 31, 2002, USA recorded a write-off before tax and minority interest of \$499 million related to the Citysearch and PRC businesses as a cumulative effect of accounting change. Although Citysearch and PRC are expected to generate positive cash flows in the future, due to cash flow discounting techniques to estimate fair value as required by the new rules, the future estimated discounted cash flows did not support current carrying values at the time of the evaluation on January 1, 2002. The Citysearch write-off was \$115 million, and the PRC write-off was \$384 million.

Adoption of the new standard resulted in a one-time, non-cash after-tax, after minority interest charge of \$461.4 million. The charge is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations as of January 1, 2002. See Note 4 for additional information regarding goodwill.

In addition, in the second quarter of 2002, USA recorded a further write-down of \$22.2 million related to PRC. The write-down resulted from contingent purchase price recorded in the second quarter.

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

#### ***Impairment or Disposal of Long-Lived Assets***

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", during the three months ended March 31, 2002. This statement supersedes SFAS No. 121,

43

"Accounting for the Impairment of Long-Lived Assets and for Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that opinion). SFAS No. 144 established a single accounting model, based on the framework established in SFAS No. 121 for long-lived assets to be disposed of for sale. It retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale.

During the third quarter of 2002, the Company decided to discontinue its active majority interest in HSE-Italy and wrote down its investment in Italy, resulting in a non-recurring charge of \$31.4 million recorded as restructuring expense.

#### ***Rescission of SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt"***

In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS No. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections". SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". Under SFAS No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item. The rescission of SFAS No. 4 stipulates that gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The Company adopted SFAS No. 145 in 2002.

During 2002, \$47.0 million of 1998 Senior Notes were acquired resulting in a \$1.5 million gain. In addition, the Company fully redeemed the unsecured \$37,782,000 aggregate principal amount of 7% Convertible Subordinated Debentures due July 1, 2003 resulting in a loss of \$2.0 million.

#### ***Accounting for Costs Associated with Exit or Disposal Activities***

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have material impact on its operating results or financial position.

#### ***Guarantor's Accounting and Disclosure Requirements for Guarantees***

In November 2002, the FASB issued Interpretation 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 will significantly change current practice in the accounting for and disclosure of guarantees. Under FIN 45, guarantees are broadly defined to include, among others, product warranties, indemnification provisions, and standby letters of credit. Guarantees meeting the characteristics described in FIN 45, which are not included in a long list of exceptions, are required to be initially recorded at fair value, which is different from the general current practice of recording a liability only

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when a loss is probable and reasonably estimable, as those terms are defined in SFAS 5, Accounting for Contingencies. FIN 45 also requires a guarantor to make significant new disclosures for virtually all guarantees even when the likelihood of the guarantor's having to make payments under the guarantee is remote. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002, while the initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements have been incorporated into these consolidated financial statements and accompanying footnotes. Effective January 1, 2003, we have adopted the initial recognition and initial measurement provisions of FIN 45 and believe that the application of FIN 45 will not have a material effect on our consolidated financial position or results of operations.

#### ***Accounting by Reseller for Cash Consideration Received From a Vendor***

In November 2002, the EITF reached a consensus on Issue 1 of Issue No. 02-16, Accounting by a Reseller for Cash Consideration Received from a Vendor. This consensus provides guidance on the circumstances under which cash consideration received from a vendor by a reseller should be considered: (a) an adjustment of the prices of the vendor's products or services and, therefore, characterized as a reduction of cost of sales when recognized in the reseller's income statement, (b) an adjustment to a cost incurred by the reseller and, therefore, characterized as a reduction of that cost when recognized in the reseller's income statement, or (c) a payment for assets or services delivered to the vendor and, therefore, characterized as revenue when recognized in the reseller's income statement. The consensus is effective for arrangements entered into after December 31, 2002. Effective January 1, 2003, we have adopted this consensus and believe that the application of EITF 02-16 will not have a material effect on our consolidated financial position or results of operations.

#### ***Stock-Based Compensation***

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" which amends FASB Statement No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of FASB Statement No. 123. The transition guidance and annual disclosure provisions are effective for financial reports containing financial statements for fiscal year ending after December 15, 2002. The Company will provide expense for stock based compensation on a prospective basis, and will continue to provide pro forma information in the notes to financial statements to provide the results as if SFAS 123 had been adopted in previous years. The Company intends to issue restricted stock units that will vest in future periods instead of stock options, although the Company's public subsidiaries may issue some employee stock options in 2003 as they complete the transition to 100% restricted stock. For restricted stock units issued, the accounting charge is measured at the grant date and amortized ratably as non-cash compensation over the vesting term.

The following table illustrates the effect on earnings (loss) and earnings (loss) per share if the fair value based method had been applied to all outstanding and unvested awards in each period:

	Years Ended December 31,		
	2002	2001	2000
Earnings (loss) available to common shareholders, as reported	\$ 1,941,344	\$ 383,608	(\$ 147,983)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	8,157	3,167	3,217
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(158,069)	(83,498)	(78,601)
Pro forma net (loss) income	\$ 1,791,432	\$ 303,277	(\$ 223,367)
<b>Earnings (loss) per share:</b>			
Basic—as reported	\$ 4.55	\$ 1.03	\$ (0.41)
Basic—pro forma	\$ 4.20	\$ 0.81	\$ (0.62)
Diluted—as reported	\$ 4.54	\$ 1.03	\$ (0.41)
Diluted—pro forma	\$ 4.19	\$ 0.81	\$ (0.62)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. 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. See Note 12 for further discussion of stock option plans.

Pro forma information regarding net income and earnings per share is required by SFAS 148. 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 2002, 2001 and 2000: risk-free interest rates of 2.78% in 2002 and 5.0% in 2001 and 2000; a dividend yield of zero; a volatility factor of 50%, 51%, and 50%, respectively, based on the expected market price of USA 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.

## Certain Risks and Concentrations

The Company's business is subject to certain risks and concentrations including dependence on relationships with travel suppliers, specifically airlines and hotels, dependence on third-party technology, exposure to risks associated with online commerce security and credit card fraud. Expedia is highly dependent on its relationships with six major airlines in the United States: United, Delta, American, Continental, Northwest and US Airways. The Company also depends on global distribution system partners and third party service providers for processing certain fulfillment services.

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents and marketable securities. Cash equivalents and marketable securities are of high-quality short to intermediate term agency securities, all of which are maintained with high credit quality financial institutions. Cash and cash equivalents are in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

## Reclassifications

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the 2002 presentation. The statements of operations, balance sheets and statements of cash flows of USA Entertainment and USAB have been classified as discontinued operations for all periods presented. See Note 20 for further discussion of discontinued operations.

## 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.

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## **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 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 years ended December 31, 2002 and 2001 was \$4.1 million and \$42.2 million, respectively. Barter revenues for the year ended December 31, 2000 are not material to USA's statement of operations.

## **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

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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**

### **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 outstanding shares, and 94.9% of the voting interest in Expedia. On February 20, 2002, USA acquired 1,873,630 shares of Expedia common stock, increasing USA's ownership to 64.6% of Expedia's 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 warrants to acquire 14.6 million shares of USA common stock at an exercise price of \$35.10. Expedia trades 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. The Expedia warrants trade on Nasdaq under the symbol "EXPEW."

The aggregate purchase price, including transaction costs, was \$1.5 billion.

The Expedia transaction has been accounted for under the purchase method of accounting by USA. The purchase price has been allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of purchase. USA obtained an independent valuation of the assets and liabilities acquired, including the identification of intangible assets other than goodwill, which identified \$352.1 million of intangible assets other than goodwill. The unallocated excess of acquisition costs over net assets acquired of \$1.1 billion was allocated to goodwill. Intangible assets with definite lives will be amortized over a weighted average life of 4.75 years, and include technology, distribution agreements, customer lists and supplier relationships.

The trade name was identified as an indefinite lived intangible, and \$203.5 million was allocated to this asset. Intangibles with definite lives included technology (\$79.5 million), key distribution agreements (\$52.3 million), supplier relationships (\$13.6 million) and customer lists (\$3.2 million). None of the amounts allocated to goodwill or intangible assets are tax deductible.

The purchase price consideration of \$1.5 billion paid for the controlling interest in Expedia, which represented a significant premium to the market value of Expedia prior to announcement of the transaction, was based on historical as well as expected performance metrics. The Company viewed revenue, EBITDA, net income and cash flow as its most important valuation metrics. The Company agreed to the purchase price that resulted in recognition of a significant amount of goodwill for a

49

number of reasons, including: (1) Expedia's market leading position and improving brand in the online travel marketplace, (2) Expedia's technological and operational expertise, including its dynamic packaging engine, (3) the very significant growth expected in the online travel market, which, at the time was only 10% of the U.S. leisure travel market and expected to increase its share significantly, and (4) the significant automation of the Expedia business model and potential for significant margin improvement as the business scaled. Expedia had a relatively short business history and was unprofitable in every year prior to the acquisition by the Company of a controlling interest. As a result, the predominant portion of purchase price was based on the expected financial performance of Expedia, and not the hard asset value on the books at the time of the acquisition. This resulted in a significant amount of the purchase price being allocated to goodwill.

Assets and liabilities of Expedia as of the acquisition date, including the application of purchase accounting by USA, consist of the following:

	(In Thousands)
Current assets	\$ 320,224
Non-current assets	34,528
Goodwill and indefinite lived intangible assets	1,298,746
Intangible assets	154,336
Current liabilities	205,675
Non-current liabilities	87,072

### Pro Forma Results

The following unaudited pro forma condensed consolidated financial information for the years ended December 31, 2002 and 2001, is presented to show the results of the Company, as if the Ticketmaster transaction which was completed January 17, 2003, the Expedia transaction which was completed February 4, 2002 and the combination of Ticketmaster Corporation and Ticketmaster Online—Citysearch, which was completed on January 31, 2001, plus the 7.1 million shares exchanged for LLC interests in the VUE Transaction, plus the 33.2 million shares issued to Liberty for its interest in Holdco, had occurred at the beginning of the periods presented. The pro forma results include certain adjustments, including increased amortization related to intangible assets, and are not necessarily indicative of what the results would have been had the transactions actually occurred on the

50

forementioned dates. Note that the amounts exclude USA Broadcasting ("USAB") and USA Entertainment, which are presented as discontinued operations (see Note 20).

	Years Ended December 31,	
	2002	2001
	(In Thousands, Except Per Share Data)	
Net revenue	\$ 4,656,711	\$ 3,765,796
Loss from continuing operations before cumulative effect of accounting change and preferred dividend	(23,959)	(309,631)
Basic loss from continuing operations before cumulative effect of accounting change and preferred dividend per common share	(0.05)	(0.64)
Diluted loss from continuing operations before cumulative effect of accounting change and preferred dividend per common share	(0.06)	(0.64)



The following unaudited pro forma condensed consolidated financial information for the year ended December 31, 2000, is presented to show the results of the Company as if the merger of ISN and Styleclick, the PRC transaction and the combination of Ticketmaster Corporation and Ticketmaster Online—Citysearch 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 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 20).

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

#### NOTE 4—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets is comprised of goodwill of \$6.0 billion, intangible assets with indefinite lives of \$544.4 million, and other intangible assets of \$713.6 million. Goodwill amortization recorded in continuing operations in the twelve months ended December 31, 2001 and 2000 was \$215.4 million and \$383.1 million, respectively. Goodwill amortization recorded in discontinued operations in the twelve months ended December 31, 2001 and 2000 was \$127.9 million and \$117.6 million, respectively. In total, goodwill and other intangible assets increased \$4.0 billion as of December 31, 2002 as compared to the prior year. The increase is due primarily to the Expedia transaction, the VUE Transaction and the exchange of LLC and Home Shopping Network equity for USA common shares, which resulted in a step-up in basis of HSN.

51

The balance of goodwill and intangible assets is as follows:

	December 31,	
	2002	2001
Goodwill	\$ 5,997,842	\$ 3,070,129
Intangible assets with indefinite lives	544,446	—
Intangible assets with definite lives	713,624	230,843
	\$ 7,255,912	\$ 3,300,972

Intangibles with indefinite lives relate principally to trade names and trademarks acquired in the Expedia transaction and the step acquisition of Home Shopping Network. Intangibles with definite lives relate principally to distribution agreements and supplier relationships of \$641.3 million, merchandise agreements of \$160.0 million and technology of \$136.1 million. Intangible assets are net of accumulated amortization of \$333.8 million, including \$252.0 million for distribution agreements and supplier relationships, \$7.5 million for merchandise agreements and \$20.3 million for technology. The weighted average amortization period for distribution agreements and supplier relationships, merchandise agreements and technology are 5.39 years, 9.05 years and 4.81 years, respectively.

Amortization expense based on December 31, 2002 balances for the next five years and thereafter is estimated to be as follows (in thousands):

Year ended December 31, 2003	\$ 186,070
Year ended December 31, 2004	162,219
Year ended December 31, 2005	120,900
Year ended December 31, 2006	89,192
Year ended December 31, 2007	39,222
Year ended December 31, 2008 and thereafter	116,021
	\$ 713,624

Note that the amounts above do not reflect additional amortization as a result of the Ticketmaster merger (see Note 1), which will result in additional amortization of intangibles for the step-up in basis. Although the assessment of intangibles is preliminary at this time, the Company estimates that the impact on amortization is approximately \$30 million for 2003.

52

The following table adjusts USA's reported net earnings (loss) and basic and diluted net earnings (loss) per share to exclude amortization expense related to goodwill and other intangible assets with indefinite lives as if Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangibles Assets" was effective January 1, 2000:

	Year Ended December 31,	
	2001	2000
	(Dollars in Thousands,	

<b>Earnings (loss) from continuing operations available to common shareholders</b>			
Reported loss from continuing operations	\$	(186,799)	\$ (172,398)
Add: goodwill amortization		134,077	166,705
Loss from continuing operations—as adjusted	\$	(52,722)	\$ (5,693)
<b>Basic earnings (loss) per share from continuing operations—as adjusted:</b>			
Reported basic loss per share	\$	(0.50)	\$ (0.48)
Add: goodwill amortization		0.36	0.46
Adjusted basic loss per share	\$	(0.14)	\$ (0.02)
<b>Diluted earnings (loss) per share from continuing operations—as adjusted:</b>			
Reported diluted loss per share	\$	(0.50)	\$ (0.48)
Add: goodwill amortization		0.36	0.46
Adjusted diluted net loss per share	\$	(0.14)	\$ (0.02)
<b>Net earnings (loss) available to common shareholders</b>			
Net income (loss) available to common shareholders	\$	383,608	\$ (147,983)
Add: goodwill amortization		176,413	206,151
Net earnings available to common shareholders—as adjusted	\$	560,021	\$ 58,168
<b>Basic earnings (loss) per share—as adjusted:</b>			
Reported basic net earnings (loss) per share	\$	1.03	\$ (0.41)
Add: goodwill amortization		0.47	0.57
Adjusted basic net earnings per share	\$	1.50	\$ 0.16
<b>Diluted earnings (loss) per share—as adjusted:</b>			
Reported diluted net earnings (loss) per share	\$	1.03	\$ (0.41)
Add: goodwill amortization		0.47	0.57
Adjusted diluted net earnings per share	\$	1.50	\$ 0.16

The following table presents the balance of goodwill by segment, including the changes in carrying amount of goodwill for year ended December 31, 2002 (in thousands):

	Balance as of January 1, 2002	Additions (Deductions)	Foreign Exchange Translation	Adoption of FAS 142	Balance as of December 31, 2002
HSN-US	\$ 1,157,140	\$ 1,279,654	\$ —	\$ —	\$ 2,436,794
Ticketing	729,442	11,341	3,048	—	743,831
Match.com	45,738	18,309	1,148	—	65,195
Hotels.com	362,464	7,279	—	—	369,743
Expedia	—	1,279,016	—	—	1,279,016
Interval	—	404,617	—	—	404,617
Precision Response(a)	696,778	(322)	—	(384,455)	312,001
Citysearch and related(b)	58,994	—	—	(58,994)	—
International TV shopping & other	19,573	361,188	5,884	—	386,645
<b>Goodwill</b>	<b>\$ 3,070,129</b>	<b>\$ 3,361,082</b>	<b>\$ 10,080</b>	<b>\$ (443,449)</b>	<b>\$ 5,997,842</b>

(a) In addition, in the second quarter of 2002, USA recorded a further write-down of \$22.2 million related to PRC. The write-down resulted from contingent purchase price recorded in the second quarter of 2002.

- (b) The total write-down of Citysearch goodwill and intangible assets upon adoption of FAS 142 was \$114.8 million. \$59.0 million was written off against the balance of goodwill, and \$55.8 million was written off against intangible assets.

**NOTE 5—LONG-TERM OBLIGATIONS**

	December 31,	
	2002	2001
(In Thousands)		
\$750,000,000 7.00% Senior Notes (the "2002 Senior Notes") due January 15, 2013; interest payable each January 15 and July 15 commencing on July 15, 2003.	\$ 750,000	\$ —
\$453,000,000 6.75% Senior Notes (the "1998 Senior Notes") due November 15, 2005; interest payable each May 15 and November 15 commencing May 15, 1999.	453,000	500,000
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, which were redeemed in full in 2002	—	37,782
Other long-term obligations maturing through 2022	34,123	43,269
<b>Total gross long-term obligations</b>	<b>1,237,123</b>	<b>581,051</b>
Total unamortized discount	(1,021)	(3,160)
<b>Total long-term obligations</b>	<b>1,236,102</b>	<b>577,891</b>
Less current maturities	(24,957)	(33,519)
<b>Long-term obligations, net of current maturities</b>	<b>\$ 1,211,145</b>	<b>\$ 544,372</b>

On December 16, 2002 USA issued the 2002 Senior Notes which are guaranteed by USANi LLC. The USANi LLC guaranty will terminate whenever the 1998 Senior Notes, co-issued by USA and USANi LLC, cease to be outstanding or its obligations under the 1998 Senior Notes and the related indenture are discharged or defeased pursuant to the terms thereof.

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 consisted 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 were permanently repaid in 2001. In 2002, in connection with the VUE transaction, the revolving credit facility was also repaid and terminated and all guarantees were released. See Note 20 for further discussion of the VUE Transaction.

The Savoy Debentures were retired during 2002, resulting in \$2.0 million of expense related to the redemption.

In 2002, \$47.0 million of the 1998 Senior Notes were acquired, resulting in a \$1.5 million gain.

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

Years Ending December 31,	(In Thousands)
2003	\$ 24,957
2004	1,066
2005	289
2006	453,215
2007	236
Thereafter	757,360
	<b>\$ 1,237,123</b>

**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,		
	2002	2001	2000
	(In Thousands)		
Income tax expense (benefit) at the federal statutory rate of 35%	\$ 16,460	\$ (100,610)	\$ (107,833)
Amortization of goodwill and other intangibles	25,952	23,087	52,554
Foreign losses not consolidated into group	10,740	2,741	527
State income taxes, net of effect of federal tax benefit	1,761	(175)	3,771
Impact of minority interest	4,363	8,144	49,430
Domestic losses not consolidated into group(a)	(27,466)	59,780	33,429
Reversal of tax liability related to purchase of Styleclick(b)	(33,388)	—	—
Other, net	7,150	9,483	11,972
<b>Income tax expense</b>	<b>\$ 5,572</b>	<b>\$ 2,450</b>	<b>\$ 43,850</b>

(a) Amounts relates to (income)/losses in investments which the Company consolidates for financial reporting purposes but which are not consolidated on the Company's federal tax return, as the Company's ownership is less than 80%. The large fluctuation in amounts is principally due to Ticketmaster, which had a loss in 2001 but income in 2002.

(b) The Company reversed a tax liability established in conjunction with the merger of Internet Shopping Network LLC ("ISN"), a subsidiary of the Company, and Styleclick, whereby 75% of Styleclick was acquired for 25% of ISN, plus other consideration. The Company modified its assessment that the tax payment would be owed based on the financial condition of Styleclick. ECS, a wholly owned subsidiary of the Company, represented a substantial majority of the revenues of Styleclick, and had advised Styleclick that it was terminating its relationships with its major customers. By year-end 2002, the Company was contemplating whether to pursue the

56

election of a worthless stock deduction related to its investment in Styleclick, and thus it did not appear likely that the liability established in conjunction with the merger would be realized.

The components of income tax expense are as follows:

	Years Ended December 31,		
	2002	2001	2000
	(In Thousands)		
<b>Current income tax expense (benefit):</b>			
Federal	\$ 35,690	\$ (10,106)	\$ 10,684
State	10,815	(2,007)	2,256
Foreign	5,980	2,310	9,553
<b>Current income tax expense (benefit)</b>	<b>52,485</b>	<b>(9,803)</b>	<b>22,493</b>
<b>Deferred income tax (benefit) expense:</b>			
Federal	(36,801)	8,750	17,811
State	(10,112)	2,519	3,546
Foreign	—	984	—
<b>Deferred income tax (benefit) expense</b>	<b>(46,913)</b>	<b>12,253</b>	<b>21,357</b>
<b>Total income tax expense</b>	<b>\$ 5,572</b>	<b>\$ 2,450</b>	<b>\$ 43,850</b>

57

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2002 and 2001 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,	
2002	2001

<b>Current deferred tax assets (liabilities):</b>			
Inventory costing	\$	6,867	\$ 6,875
Provision for accrued expenses		26,614	13,827
Deferred revenue		7,807	(3,743)
Other		(26,300)	22,987
		<hr/>	<hr/>
Total current deferred tax assets		14,988	39,946
Less valuation allowance		(12,981)	—
		<hr/>	<hr/>
Net current deferred tax assets	\$	2,007	\$ 39,946
		<hr/>	<hr/>
<b>Non-current deferred tax assets (liabilities):</b>			
Broadcast and cable fee contracts	\$	—	\$ 1,693
Depreciation for tax in excess of financial statements		(17,721)	(6,248)
Amortization of intangibles		(203,982)	16,485
Investment in subsidiaries		30,908	27,165
Gain on sale of subsidiary stock		(46,415)	(46,415)
Gain on sale of Broadcasting		—	(168,586)
Net operating loss carryforward		187,356	97,785
VUE Limited Partnership		(2,123,525)	(157)
Warrant amortization		3,141	(10,835)
Other		15,982	(22,806)
		<hr/>	<hr/>
Total non-current deferred tax liabilities		(2,154,256)	(111,919)
Less valuation allowance		(230,750)	(98,265)
		<hr/>	<hr/>
Net non-current deferred tax liabilities	\$	(2,385,006)	\$ (210,184)
		<hr/>	<hr/>

The tax liability recorded in conjunction with the Vivendi transaction was \$2.1 billion. This liability was based on the difference between the book basis and the tax basis of the consideration received in the transaction. This deferred tax liability will remain on the balance sheet of the Company until any change is made to the book basis or the tax basis of the assets received in the transaction or until any such assets are eventually sold or otherwise disposed of, subject to adjustment for a change in tax rates of when the difference is expected to reverse.

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 \$7.6 million, \$38.4 million, and \$27.0 million for the years ended December 31, 2002, 2001 and 2000, respectively, were recorded as increases to additional paid-in capital.

At December 31, 2002 and 2001, the Company has net operating loss carryforwards ("NOL") for federal income tax purposes of \$504.2 and \$255.6 million, respectively, which are available to offset future federal taxable income, if any, through 2022. 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)
2003	\$ 90,470
2004	82,757
2005	55,115
2006	35,253
2007	31,377
Thereafter	136,792
	<hr/>
Total	\$ 431,764
	<hr/>

Expenses charged to operations under these agreements were \$91.2 million, \$87.0 million and \$69.3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

As of December 31, 2002, Hotels.com has non-cancelable commitments for hotel rooms totaling \$5.2 million, which relate to the period January 2003 to January 2004.

## NOTE 8—RESTRUCTURING CHARGES

Restructuring related expenses were \$74.4 million (\$35.3 million impacting Adjusted EBITDA) in the year ended December 31, 2002, compared to \$14.4 million (\$8.2 million impacting Adjusted EBITDA) in the year ended December 31, 2001. The 2002 amounts relate to various initiatives across business segments, including \$15.1 million for ECS related to rationalizing the business due to poor operating results, \$14.8 million for HSN-International related to the shut-down of HSN-Espanol, the Company's Spanish language electronic retailing operation, due to high costs of carriage and disappointing sales per home due to the fragmented market, \$13.1 million for PRC related principally to the shut-down of three call centers, a subsidiary operation, and employee terminations due principally to the decline in the teleservicing market that resulted in excess capacity and \$31.4 million related to HSE-Italy due to large losses incurred in this market and uncertainty as to the ability to turn-around operations. Costs that relate to ongoing operations are not part of the restructuring charges and are not included in "Restructuring Charges" on the statement of operations. Furthermore, all inventory and accounts receivable adjustments that may result from the actions are classified as operating expenses in the statement of operations. The 2001 amounts relate to various initiatives across business segments, including \$10.6 million for Styleclick related to the restructuring of its operations, including the closure of its website, FirstAuction.com, and costs related to closing its offices in Los

59

Angeles due to the relocation of the business to Chicago, \$2.9 million for PRC related to a reduction of workforce and capacity due principally to the decline in the teleservicing market that resulted in excess capacity and \$0.9 million for Citysearch due to a change in the business model.

For the year ended December 31, 2002 and 2001, the charges associated with the restructurings were as follows (in thousands):

	2002	2001
Continuing lease obligations	\$ 13,266	\$ 2,838
Asset impairments	7,718	5,345
Employee termination costs	5,049	4,911
Write-down of prepaid cable distribution fees	10,852	-
HSE-Italy	31,411	-
Other	6,090	1,320
	<u>\$ 74,386</u>	<u>\$ 14,414</u>

Continuing lease obligations primarily relate to excess call center, warehouse and office space of PRC and ECS. Asset impairments relates primarily to leasehold improvements that are being abandoned. Prepaid cable distribution fees relate to non-refundable upfront amounts paid by HSN-Espanol for carriage, primarily in Mexico.

As of December 31, 2002, the Company has a balance of \$19.4 million accrued, as \$46.6 million of the charge related to assets that had been written off and \$10.8 million was paid during the year related to the restructuring reserve.

As of December 31, 2001, the Company has a balance of \$2.4 million accrued, as \$6.2 million of the charge related to assets that had been written off and \$5.8 million was paid during the year related to the restructuring reserve.

## NOTE 9—SHAREHOLDERS' EQUITY

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

With respect to matters that may be submitted to a vote or for the consent of USA's shareholders generally, including the election of directors, each holder of shares of USA common stock, USA Class B common stock and USA preferred stock will vote together as a single class. In connection with any such vote, each holder of USA common stock is entitled to one vote for each share of USA common stock held, each holder of USA Class B common stock is entitled to ten votes for each share of USA Class B common stock held and each holder of USA preferred stock is entitled to two votes for each share of USA preferred stock held. Notwithstanding the foregoing, the holders of shares of USA common stock, acting as a single class, are entitled to elect 25% of the total number of USA's directors, and, in the event that 25% of the total number of directors shall result in a fraction of a director, then the holders of shares of USA common stock, acting as a single class, are entitled to elect the next higher whole number of USA's directors. In addition, Delaware law requires that certain matters be approved by the holders of shares of USA common stock, holders of USA Class B common stock or holders of USA preferred stock voting as a separate class.

Shares of USA Class B common stock are convertible into shares of USA common stock at the option of the holder thereof, at any time, on a share-for-share basis. Such conversion ratio will in all events be equitably preserved in the event of any recapitalization of USA by means of a stock dividend on, or a stock split or combination of, outstanding shares of USA common stock or USA Class B

60

common stock, or in the event of any merger, consolidation or other reorganization of USA with another corporation. Upon the conversion of shares of USA Class B common stock into shares of USA common stock, those shares of USA Class B common stock will be retired and will not be subject to reissue. Shares of USA common stock are not convertible into shares of USA Class B common stock.

Except as described herein, shares of USA common stock and USA Class B common stock are identical. The holders of shares of USA common stock and the holders of shares of USA Class B common stock are entitled to receive, share for share, such dividends as may be declared by USA's board of directors out of funds legally available therefor. In the event of a liquidation, dissolution, distribution of assets or winding-up of USA, the holders of shares of USA common stock and the holders of shares of USA Class B common stock are entitled to receive, share for share, all the assets of USA available for distribution to its stockholders, after the rights of the holders of the USA preferred stock have been satisfied.

In the event that USA issues or proposes to issue any shares of USA common stock or Class B common stock (including shares issued upon exercise, conversion or exchange of options, warrants and convertible securities), Liberty will have preemptive rights that entitle it to purchase a number of USA common shares so that Liberty will maintain the identical ownership interest in USA that Liberty had immediately prior to such issuance or proposed issuance. Any purchase by Liberty will be allocated between USA common stock and Class B common stock in the same proportion as the issuance or issuances giving rise to the preemptive right, except to the extent that Liberty opts to acquire shares of USA common stock in lieu of shares of USA Class B common stock.

### **Description of Preferred Stock**

USA's board of directors has the authority to designate, by resolution, the powers, preferences, rights and qualifications, limitations and restrictions of the preferred stock without any further vote or action by the stockholders. Any shares of preferred stock so issued would have priority over shares of USA common stock and shares of USA Class B common stock with respect to dividend or liquidation rights or both.

In connection with the acquisition of a controlling interest in Expedia, Inc., USA issued an aggregate of approximately 13.1 million shares of USA preferred stock, par value \$0.01 per share, "Series A Cumulative Convertible Preferred Stock," each having a \$50.00 face value and a term of 20 years, which is referred to in this document as USA preferred stock. Each share of USA 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 conversion price is initially equal to \$33.75 per share of USA common stock and is subject to downward adjustment if the price of USA common stock exceeds \$35.10 at the time of conversion pursuant to a formula set forth in the certificate of designation for the USA preferred stock. Shares of USA preferred stock may be put to USA on the fifth, seventh, tenth and fifteenth anniversary of February 4, 2002 for cash or stock at USA's option. USA also has the right to redeem the shares of USA preferred stock for cash or stock commencing on the tenth anniversary of February 4, 2002. In the event of a voluntary or involuntary liquidation, dissolution or winding-up of USA, holders of USA preferred stock will be entitled to receive, in preference to any holder of USA common stock or USA Class B common stock, an amount per share equal to all accrued and unpaid dividends plus the greater of (a) face value, or (b) the liquidating distribution that would be received had such holder converted the USA preferred stock into USA common stock immediately prior to the liquidation, dissolution or winding-up of USA.

### **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 21.7% (83,964,385 shares) of USA's outstanding common stock, and 100% (64,629,996 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 shareholders vote as a single class. As a result, Mr. Diller controls 69.0% of the outstanding total voting power of the Company as of December 31, 2002. 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 shareholders. 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, and other matters 186,115,807 shares of Common Stock were reserved as of December 31, 2002.

### **Stock-Based Warrants Issued for Services**

In connection with several exclusive affiliate distribution and marketing agreements, and at the completion of Hotels.com's initial public offering, Hotels.com issued warrants to third-party affiliated websites to purchase 1,428,365 shares of its class A common stock. These warrants are non-forfeitable, fully vested and exercisable and are not subject to any performance targets. At that time, Hotels.com recorded an asset of approximately \$14.8 million based on the fair market value of the warrants to purchase class A common stock at the initial public offering price of \$16.00 per share. The asset is being amortized ratably over the terms of the exclusive affiliation agreements, which range from two to five years. During the twelve months ended December 31, 2002, 2001 and 2000, the Company amortized \$3.5 million, \$4.3 million and \$4.2 million of the warrant costs, respectively.

In addition, upon completion of Hotels.com's initial public offering and in connection with an affiliation and marketing agreement, the company issued a performance warrant to acquire up to 2,447,955 shares of the Hotels.com's class A common stock to Travelocity, the vesting of which was to be subject to achieving certain performance targets. In March 2001, the company entered into an amendment to the affiliation agreement with Travelocity to extend the term of the agreement through July 31, 2005 and to broaden and expand the affiliation relationship. In connection with this amendment, the company also revised the terms of the performance warrant and waived the vesting requirements as to a portion of the warrant, which resulted in 1,468,773 shares underlying the performance warrant becoming immediately exercisable and the remaining 979,182 shares continuing to be subject to achieving certain performance targets. At the time of this amendment, the company

recorded an asset of approximately \$26.3 million based on the fair market value of the warrants that became exercisable at such time, of which \$5.95 million and \$4.96 million was amortized during the twelve-month periods ending December 31, 2002 and 2001, respectively. The asset is being amortized ratably over the remaining term of the affiliation agreement. Through December 31, 2002, 504,011 of the remaining shares underlying the performance warrant had vested and become exercisable, and the company has recorded an aggregate of \$14.9 million of additional non-cash deferred distribution and marketing expense based upon the fair market value of such shares. The company will record during each quarterly period through the end of the term of the affiliate agreement in July 2005 an additional non-cash deferred distribution and marketing expense related to the portion of the performance warrant that vests during each such quarter. In order for the remaining 475,171 unvested shares underlying performance warrant to vest fully, Travelocity, among other things, must generate over \$397 million in additional revenue through Hotels.com prior to the expiration of the agreement on July 31, 2005.

In November 2000, the Company entered into an additional exclusive affiliate distribution and marketing agreement and, in connection with it, issued to the affiliate warrants to purchase 95,358 shares of its class A common stock at \$31.46 per share, the market price of the class A common stock on the date such warrant was issued. These warrants are non-forfeitable, fully vested and exercisable and are not subject to any performance targets. At that time, the company recorded an asset of approximately \$2.9 million based on the fair market value of the warrants, which is being amortized ratably over the four-year term of the exclusive affiliation agreement. During the twelve months ended December 31, 2002, 2001 and 2000, the company amortized \$0.7 million, \$0.7 million and \$0.1 million of the warrant costs, respectively. In addition, the company agreed under the terms of the affiliation agreement to issue additional warrants to purchase up to 985,369 shares of class A common stock to the affiliate if the affiliate achieves certain performance targets. No warrants were required to be issued under this agreement during the years ended December 31, 2002, 2001 and 2000. If the targets remaining under the marketing and distribution agreement as of December 31, 2002 are met in full, Hotels.com will be required to issue warrants to acquire an aggregate of 317,861 shares of class A common stock at an exercise price calculated at the end of each performance measurement period.

In March 2001, the company entered into another exclusive affiliate distribution and marketing agreement and agreed to issue warrants to purchase up to 2,122,726 shares of its class A common stock to the affiliate if the affiliate achieves certain performance targets. No warrants were required to be issued under this agreement during the year ended December 31, 2002 and 2001.

### **Stock Based Warrants Issued in Other Transactions**

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 warrants to acquire 14.6 million shares of USA common stock at an exercise price of \$35.10. 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 warrants trade on Nasdaq under the symbol "USAIW."

On May 7, 2002, in conjunction with the VUE transaction, USA issued to Vivendi 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. In February 2003, Vivendi completed a transaction whereby it transferred its rights to 32.2 million of these warrants to a third party.

63

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### **Common Stock Exchangeable for Preferred Interest**

Vivendi's current ownership in USA 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), such number of shares are required to be held by Vivendi in connection with its obligations related to our ownership of the Class B preferred interest in VUE. The preferred is to be settled by Vivendi at its then face value with a maximum of approximately 56.6 million USA common shares, provided that Vivendi 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. The value of 56.6 million shares of \$1.4 billion has been reclassified from Additional Paid in Capital to Common Stock Exchangeable for Preferred Interest, which account is presented on a separate line item outside of Shareholder's Equity. The value of the shares will not be adjusted, unless the value of USA common stock suffers a decline in value that is other than temporary over the twenty year holding period.

### **NOTE 10—LITIGATION**

In the ordinary course of business, the Company is a party to various lawsuits. In the opinion of management, the ultimate outcome of these 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 generally matches a portion of the employee contribution. The expense recorded related to these contributions was not material for any years presented.

### **NOTE 12—STOCK OPTION PLANS**

USA currently has a total of 13 equity based compensation plans under which options and other equity awards are outstanding, including plans assumed in acquisitions. Nine of these plans, including those assumed, have no additional options or other equity awards available for future grant pursuant to these plans. The remaining four compensation plans cover outstanding options to acquire shares of USA common stock and provide for the future grant of options and other equity awards.

The following information is with respect to the four plans under which future awards may be granted. Under the USA 2000 Stock and Annual Incentive Plan, the Company initially was authorized to grant options, restricted stock and other equity based awards for up to 20,000,000 shares of USA common stock to its employees, officers, directors and consultants. Under the 1997 Stock and Annual Incentive Plan, the Company initially was authorized to grant options, restricted stock and other equity based awards for up to 40,000,000 shares of USA common stock to its employees, officers, directors and consultants. Under the 1996 Stock Option Plan for Employees, at the time it was assumed by the Company in 1996, the Company was authorized to grant options for up to 4,364,000 shares of common stock to its employees and consultants, not including the options that were outstanding at the time of assumption. Finally, under the Silver King Communications, Inc. 1995 Stock Incentive Plan, the

64



Company initially was authorized to grant options, restricted stock and other equity awards for up to 6,000,000 shares of common stock to its employees, officers and consultants.

Each of these plans (i) has a stated term of ten years, (ii) provides that options may not be granted with a term in excess of ten years from the date of grant and (iii) provides that the exercise price of options granted generally will not be less than the market price of the Company's common stock on the date of grant. The plans do not specify grant dates or vesting schedules as those determinations are delegated to the Compensation/Benefits Committee of the Board of Directors (the "Committee") and each grant agreement reflects the vesting schedule for that particular grant as determined by the Committee. Option awards to date have generally vested in equal annual installments over a four-year period from the date of grant. A summary of changes in outstanding options under the stock option plans is as follows:

	December 31,					
	2002		2001		2000	
	Shares	Weighted Average Exercise Price(\$)	Shares	Weighted Average Exercise Price(\$)	Shares	Weighted Average Exercise Price(\$)
	(Shares in Thousands)					
Outstanding at beginning of period	84,426	\$ 12.51	88,755	\$ 11.12	75,955	\$ 9.83
Granted or issued in connection with mergers	2,599	28.05	7,503	23.02	19,526	21.05
Exercised	(9,208)	15.70	(9,116)	8.88	(4,277)	7.92
Cancelled	(9,804)	21.99	(2,716)	20.47	(2,449)	19.93
Outstanding at end of period	68,013	11.29	84,426	12.51	88,755	11.12
Options exercisable	58,850	\$ 9.37	63,023	\$ 9.49	56,968	\$ 7.68
Available for grant	16,609		10,379		33,628	

The weighted average fair value of options granted during the years ended December 31, 2002, 2001 and 2000 was \$13.35, \$12.26 and \$16.96, respectively.

65

The following table summarizes the information about options outstanding and exercisable as of December 31, 2002.

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Outstanding at December 31, 2002	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Exercisable at December 31, 2002	Weighted Average Exercise Price
	(Share amounts in Thousands)				
\$2.50 to \$5.00	18,077	2.8	\$ 4.72	18,069	\$ 4.72
\$5.01 to \$10.00	30,882	4.0	8.36	30,811	8.36
\$10.01 to \$15.00	1,867	5.5	12.28	1,848	12.28
\$15.01 to \$20.00	3,395	6.6	18.56	2,042	18.51
\$20.01 to \$25.00	9,477	7.7	22.87	4,069	22.75
\$25.01 to \$30.00	4,122	7.6	28.02	2,011	27.75
\$30.01 to \$32.27	193	9.2	31.68	—	—
	68,013	4.6	11.29	58,850	9.37

## NOTE 13—STATEMENTS OF CASH FLOWS

### Supplemental Disclosure of Non-Cash Transactions for the Year ended December 31, 2002

On February 4, 2002, USA completed the acquisition of a controlling interest in Expedia. USA issued 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.

On April 12, 2002, Ticketmaster acquired all of the equity interests of Soulmates Technology Pty Ltd ("Soulmates"), a global online personals company that provides dating and matchmaking services in nearly 30 countries worldwide. In connection with the acquisition, Ticketmaster issued 817,790 shares of Ticketmaster Class B common stock valued at approximately \$23.6 million.

On May 1, 2002, USA acquired all of the equity interests of TVTS. In connection with the acquisition, USA issued 1.6 million shares of common stock valued at approximately \$48.1 million.

In connection with VUE Transaction on May 7, 2002, shares of USANi LLC held by Liberty Media Corporation ("Liberty") were exchanged for 7.1 million USA shares.

On June 27, 2002, the Company and Liberty completed the exchange of Liberty's Home Shopping Network ("Holdco") shares, with the Company issuing an aggregate of 31.6 million shares of common stock and 1.6 million shares of Class B common stock.

For the year ended December 31, 2002, the Company incurred non-cash restructuring charges of \$46.6 million related to various initiatives across business segments.

For the year ended December 31, 2002, the Company incurred non-cash distribution and marketing expense of \$37.3 million and non-cash compensation expense of \$15.9 million.

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For the year ended December 31, 2002, the Company recognized non-cash net revenues of \$31.9 million as a result of deferred revenue recorded in connection with its various acquisitions.

In 2002 the Company recognized pre-tax losses of \$123.6 million on equity losses in unconsolidated subsidiaries, resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2002, the Company also realized \$22.2 million related to goodwill impairment, which was related to a contingent purchase price adjustment.

#### **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.

For the year ended December 31, 2001, the Company recognized non-cash revenues of \$1.2 million as a result of deferred revenue recorded in connection with its various acquisitions.

In 2001 the Company recognized 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.

#### **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 TM VISTA, by issuing approximately 757,959 shares of TMCS Class B Common Stock, for a total value of approximately \$20.4 million.

On April 5, 2000, USA completed its acquisition of PRC by issuing approximately 24.3 million shares of USA 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.

67

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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 merger of ISN and Styleclick and \$3.7 million related to the initial public offering of common stock by Hotels.com.

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.

For the year ended December 31, 2000, the Company recognized non-cash revenues of \$0.6 million as a result of deferred revenue recorded in connection with its various acquisitions.

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 Cash Flow Information:**

	Years Ended December 31,		
	2002	2001	2000
	(In Thousands)		
<b>Cash paid during the period for:</b>			
Interest	\$ 37,962	\$ 39,285	\$ 38,946
Income tax payments	26,428	12,770	16,663
Income tax refund	(967)	1,053	1,662

**NOTE 14—RELATED PARTY TRANSACTIONS**

As of December 31, 2002, the Company was involved in several agreements with related parties as follows:

**Continuing Operations**

During 2002, the Company provided \$12.5 million in advertising to Microsoft, such advertising was obtained by USA from Universal Television pursuant to the VUE Transaction.

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 was obligated to make a distribution to each of the LLC members in an amount equal to each member's share of USANi LLC's taxable

income at a specified tax rate. The final distribution was made in 2002 in the amount of \$154.1 million relating to 2001 and through May 2002, as USA now owns 100% of USANi LLC. In 2001, USANi LLC paid \$17.4 million related to the year ended December 31, 2000, and in 2000, USANi LLC paid \$68.1 million related to the year ended December 31, 1999, to Universal and Liberty.

**Discontinued Operations**

As part of the Company's acquisition of USA Cable and Studios USA from Universal in February 1998 (the "Universal Transaction"), the Company entered into several agreements with Universal. The following agreements were terminated in relation to the VUE Transaction:

Universal provided 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 \$3.0 million, \$7.1 million and \$8.2 million for the period January 1 to May 7, 2002 and the years ended December 31, 2001 and 2000, respectively, of which \$2.6 million, \$5.7 million and \$4.7 million was capitalized to production costs, respectively.

Universal and the Company entered into an International Television Distribution Agreement under which the Company paid to Universal a distribution fee of 10% on all programming owned or controlled by the Company distributed outside of the United States. For the period January 1 to May 7, 2002 and the years ended December 31, 2001 and 2000, the fee totaled \$5.8 million, \$13.6 million and \$14.0 million, respectively.

In addition, the Company and Universal entered into a Domestic Television Distribution Agreement under which the Company distributed in the United States certain of Universal's television programming. For the period January 1 to May 7, 2002 and the years ended December 31, 2001 and 2000, Universal paid the Company \$0.5 million, \$4.1 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 earned a distribution fee and remitted the balance of revenues to a Universal entity. For the period January 1 to May 7, 2002 and the years ended December 31, 2001 and 2000, Films earned distribution fees of approximately \$0.4 million, \$5.7 million and \$10.7 million, respectively, from the distribution of these films. Films was 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 January 1 to May 7, 2002 and the years ended December 31, 2001 and 2000, Films incurred fees to Universal of approximately \$0.7 million, \$5.6 million and \$3.5 million, respectively, for such services.

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

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, 2002</b>				
Net revenues	\$ 1,338,988	\$ 1,192,496	\$ 1,117,795	\$ 971,945
Operating profit (loss)	58,771	5,763	(5,564)	27,783
Earnings (loss) from continuing operations before cumulative effect of accounting change(a)	148,117	(33,365)	(111,344)	3,970
Earnings (loss) before cumulative effect of accounting change(a)	148,117	(33,365)	2,273,840	25,900
<b>Net earnings (loss) available to common shareholders(a) (e)</b>	<b>144,855</b>	<b>(36,631)</b>	<b>2,270,576</b>	<b>(437,456)</b>
<b>Earnings (loss) per Share—Continuing Operations available to common shareholders</b>				
Basic earnings (loss) per common share(d)	\$ 0.32	\$ (0.08)	\$ (0.28)	\$ 0.01
Diluted net earnings (loss) per common share(d)	\$ 0.30	\$ (0.08)	\$ (0.28)	\$ (0.01)
<b>Earnings (loss) per Share—Before Cumulative Effect of Accounting Change available to common shareholders</b>				
Basic earnings (loss) per common share(d)	\$ 0.32	\$ (0.08)	\$ 5.51	\$ 0.06
Diluted net earnings (loss) per common share(d)	\$ 0.30	\$ (0.08)	\$ 5.50	\$ 0.06
<b>Net earnings (loss) per Share available to common shareholders</b>				
Basic net earnings (loss) per common share(d)	\$ 0.32	\$ (0.08)	\$ 5.51	\$ (1.11)
Diluted net earnings (loss) per common share(d)	\$ 0.30	\$ (0.08)	\$ 5.50	\$ (0.53)
<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	(46,440)	(62,876)	(33,860)	(43,623)
Earnings (loss) before cumulative effect of accounting change(b)	(56,948)	427,575	39,551	(17,383)
	70			
<b>Net earnings (loss)(b)(c)(e)</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)	(0.12)	(0.17)	(0.09)	(0.12)
<b>Earnings (loss) per Share—Before Cumulative Effect of Accounting Change</b>				
Basic earnings (loss) per common share(d)	(0.15)	1.14	0.11	(0.05)
Diluted earnings (loss) per common share(d)	(0.15)	1.14	0.11	(0.05)
<b>Net earnings (loss) per Share</b>				
Basic earnings (loss) per common share(d)	(0.15)	1.14	0.11	(0.07)
Diluted earnings (loss) per common share(d)	(0.15)	1.14	0.11	(0.07)

(a) During the second quarter of 2002, the Company recorded a gain of \$2.4 billion on the contribution of the USA Entertainment Group to VUE. During the second quarter of 2002, the Company recorded a \$22.2 million write-down of PRC's goodwill. During the third quarter of 2002, the Company wrote down its investment in HSE-Italy of \$31.4 million. During the fourth quarter of 2002, the Company reversed a deferred tax liability of \$37.4 million due to the determination that exposure to the tax obligation was no longer probable.

(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.

(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)

USA Entertainment is presented as a discontinued operation for all years presented. For the second and first quarters of 2002, the after tax results of USA Entertainment were \$21.9 million and \$6.9 million, respectively. 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.

## NOTE 16—INDUSTRY SEGMENTS

The Company during 2002 operated principally in the following industry segments: Home Shopping-US (including HSN.com) ("HSN-US"); Ticketing (including Ticketmaster and ticketmaster.com); Hotels.com (Nasdaq: ROOM); Expedia (Nasdaq: EXPE); Interval; Precision Response; Match.com; Citysearch; USA Electronic Commerce Solutions LLC ("ECS")/Styleclick; and International TV shopping and other (which includes HSN-International and TVTS, which was acquired in May 2002). 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 in 2001 and 2000.

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating profit plus (1) depreciation and amortization, (2) amortization of

71

cable distribution fees of \$53.7 million, \$44.0 million and \$36.3 million in fiscal years 2002, 2001 and 2000, respectively (3) amortization of non-cash distribution and marketing expense and (4) non-recurring charges, including disengagement expenses (described in the Management's Discussion and Analysis) of \$31.7 million and \$4.1 million in 2002 and 2001, respectively and restructuring charges not impacting EBITDA. Adjusted EBITDA is presented here as a measurement 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.

The following is a reconciliation of Adjusted EBITDA to earnings (loss) from continuing operations before income taxes and minority interest for 2002, 2001 and 2000. Furthermore, the Company has provided a reconciliation of Adjusted EBITDA to operating income by segment in Note 23.

	Twelve Months Ended December, 31		
	2002(a)	2001	2000
Adjusted EBITDA	\$ 610,125	\$ 297,928	\$ 276,723
Amortization of cable distribution fees	(53,680)	(43,975)	(36,322)
Amortization of non-cash distribution and marketing	(37,344)	(26,385)	(11,665)
Amortization of non-cash compensation expense	(15,899)	(7,800)	(12,740)
Depreciation	(177,219)	(131,308)	(105,380)
Amortization of intangibles	(146,183)	(294,583)	(314,768)
Goodwill impairment	(22,247)	—	(145,594)
Disengagement expenses	(31,671)	(4,052)	—
Restructuring charges not impacting EBITDA	(39,129)	(6,248)	—
Interest income	114,552	26,994	38,753
Interest expense	(44,755)	(46,179)	(46,119)
Gain on sale of subsidiary stock	—	—	108,343
Equity in losses of unconsolidated subsidiaries and other	(109,522)	(51,849)	(59,326)
Earnings (loss) from continuing operations before income taxes and minority interest	\$ 47,028	\$ (287,457)	\$ (308,095)

72

	Years Ended December 31,		
	2002(a)	2001	2000
	(In Thousands)		
<b>Revenues</b>			
HSN-U.S.(b)	\$ 1,611,184	\$ 1,658,905	\$ 1,533,271
Ticketing	655,249	579,679	518,565
Match.com	125,239	49,250	29,122
Hotels.com	945,373	536,497	327,977
Expedia	553,702	—	—
Interval	38,730	—	—
Precision Response	295,239	298,678	212,471
Citysearch and related	30,768	46,107	50,889
USA Electronic Commerce Solutions LLC/Styleclick	39,199	34,229	46,603
International TV Shopping & Other(c)	337,128	272,568	245,714
Intersegment Elimination(f)	(10,587)	(7,053)	—
<b>Total</b>	\$ 4,621,224	\$ 3,468,860	\$ 2,964,612

**Operating Profit (Loss)**

HSN-U.S.(b)(d)	\$	101,928	\$	105,762	\$	130,442
Ticketing		107,817		23,796		25,453
Match.com		22,703		(8,868)		(12,484)
Hotels.com		105,497		15,811		9,166
Expedia		88,270		—		—
Interval		(5,268)		—		—
Precision Response		(38,107)		(40,856)		(7,282)
Corporate & other		(46,690)		(37,973)		(52,593)
Citysearch and related		(106,046)		(163,939)		(207,004)
USA Electronic Commerce Solutions LLC/Styleclick		(61,486)		(73,142)		(240,085)
International TV Shopping & Other(c)		(81,865)		(37,014)		4,641
<b>Total</b>	<b>\$</b>	<b>86,753</b>	<b>\$</b>	<b>(216,423)</b>	<b>\$</b>	<b>(349,746)</b>

**Adjusted EBITDA**

HSN-U.S.(b)	\$	271,999	\$	232,175	\$	236,752
Ticketing		147,968		106,248		99,375
Match.com		36,057		16,512		6,241
Hotels.com		130,604		81,449		52,641
Expedia		162,826		—		—
Interval		4,012		—		—
Precision Response		27,919		26,046		35,165
Corporate & other		(45,893)		(34,518)		(37,608)
Citysearch and related		(43,641)		(44,423)		(66,356)
USA Electronic Commerce Solutions LLC/Styleclick		(50,631)		(58,361)		(60,227)
International TV Shopping & other		(31,095)		(27,200)		10,740
<b>Total</b>	<b>\$</b>	<b>610,125</b>	<b>\$</b>	<b>297,928</b>	<b>\$</b>	<b>276,723</b>

73

**Assets**

HSN-U.S.	\$	3,488,895	\$	1,691,553	\$	1,729,266
Ticketing		1,240,632		1,109,661		1,089,965
Match.com		93,393		83,032		73,293
Hotels.com		844,862		643,835		555,613
Expedia		948,744		—		—
Interval		717,430		—		—
Precision Response		441,363		850,485		795,531
Corporate & other		7,195,276		1,693,630		843,312
Citysearch and related		96,752		209,212		364,631
USA Electronic Commerce Solutions LLC/Styleclick		8,410		33,111		61,025
International TV Shopping & Other		587,356		212,549		133,654
<b>Total</b>	<b>\$</b>	<b>15,663,113</b>	<b>\$</b>	<b>6,527,068</b>	<b>\$</b>	<b>5,646,290</b>

**Depreciation and amortization of intangibles and cable distribution fees(e)**

HSN-U.S.	\$	138,049	\$	122,115	\$	106,059
Ticketing		38,783		80,897		73,922
Match.com		7,663		19,516		18,725
Hotels.com		5,486		48,662		39,215
Expedia		55,862		—		—
Interval		9,280		—		—
Precision Response		38,113		66,432		42,447
Corporate & other		7,030		7,133		5,536
Citysearch and related		53,916		106,700		130,207
USA Electronic Commerce Solutions LLC/Styleclick		4,738		8,810		34,260
International TV Shopping & Other		18,162		9,601		6,099
<b>Total</b>	<b>\$</b>	<b>377,082</b>	<b>\$</b>	<b>469,866</b>	<b>\$</b>	<b>456,470</b>

74

<b>Capital expenditures</b>						
HSN-U.S.	\$	36,850	\$	42,615	\$	34,122
Ticketing		32,095		24,465		23,282
Match.com		5,525		3,268		2,485
Hotels.com		25,912		15,953		2,859
Expedia		20,592		—		—
Interval		2,364		—		—
Precision Response		13,938		25,775		43,505
Corporate & other		4,265		5,120		21,756
Citysearch and related		4,408		5,017		9,262
USA Electronic Commerce Solutions LLC/Styleclick		1,918		2,292		5,047
International TV Shopping & Other		17,688		6,031		18,105
<b>Total</b>	<b>\$</b>	<b>165,555</b>	<b>\$</b>	<b>130,536</b>	<b>\$</b>	<b>160,423</b>

- (a) Includes results of TVTG as of May 1, 2002 and Interval as of September 24, 2002, the dates of their acquisition.
- (b) Includes estimated revenue in 2001 and 2000 generated by homes lost by HSN following the sale of USA Broadcasting to Univision, which is estimated to be \$137.4 million and \$6.2 million, respectively. Adjusted EBITDA for 2001 and 2000 for these homes is estimated at \$27.4 million and \$0.9 million, respectively.
- (c) Includes impact of foreign exchange fluctuations, which reduced revenue by \$34.4 million, \$46.9 million and \$36.3 million in 2002, 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.
- (d) Includes costs incurred related to the disengagement of HSN from USA Broadcasting stations of \$31.7 million in 2002 and \$4.1 million in 2001. Amounts primarily relate to payments to cable operators and related marketing expenses in the disengaged markets.
- (e) Excludes \$6.2 million of restructuring expense related to fixed asset write-offs in 2001.
- (f) Precision Response provides call center services to other USA segments of \$9.9 million in 2002 and \$7.1 million in 2001. These amounts are eliminated in consolidation.

75

The Company maintains operations in the United States, Germany, the United Kingdom, Canada and other international territories. Geographic Information about the United States and international territories for the years ended December 31, 2002, 2001, and 2000 are presented below.

	Years Ended December 31,		
	2002	2001	2000
	(In Thousands)		
<b>Revenue</b>			
United States	\$ 4,012,849	\$ 3,086,525	\$ 2,649,457
All other countries	608,375	382,335	315,155
	<u>\$ 4,621,224</u>	<u>\$ 3,468,860</u>	<u>\$ 2,964,612</u>
<b>Long-lived assets</b>			
United States	\$ 550,206	\$ 530,952	\$ 551,409
All other countries	48,498	26,915	16,658
	<u>\$ 598,704</u>	<u>\$ 557,867</u>	<u>\$ 568,067</u>

#### 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 Company's financial instruments include letters of credit and bank guarantees. These commitments are in place to facilitate the commercial operations of certain USA's subsidiaries.

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Cash and cash equivalents	\$ 1,998,114	\$ 1,998,114	\$ 392,176	\$ 392,176
Long-term investments	3,010,712	3,010,712	64,731	64,731

Long-term obligations	(1,236,102)	(1,280,611)	(577,891)	(583,991)
Letters of credit	—	38,947	—	15,743
Bank guarantees	—	30,142	—	—

76

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

At December 31, 2002, marketable securities available-for-sale were as follows (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Auction rate preferred equity securities	\$ 471,700	\$ —	\$ —	\$ 471,700
U.S. Government and agencies	\$ 226,918	\$ 4,898	\$ —	\$ 231,816
Non-US government securities and other fixed term obligations	1,223,040	723	(221)	1,223,542
Corporate debt securities	2,000	—	—	2,000
Total debt securities	\$ 1,451,958	\$ 5,621	\$ (221)	\$ 1,457,358
<b>Total marketable securities</b>	<b>\$ 1,923,658</b>	<b>\$ 5,621</b>	<b>\$ (221)</b>	<b>\$ 1,929,058</b>

Income tax expense of \$1,945 was recorded on these securities for the year ended December 31, 2002.

The contractual maturities of debt securities classified as available-for-sale as of December 31, 2002 are as follows (in thousands):

	Amortized Cost	Estimated Fair Values
Due in one year or less	\$ 1,175,223	\$ 1,175,767
Due after one year through two years	159,676	161,934
Due after two through five years	102,405	104,755
Due over five years	14,654	14,902
<b>Total</b>	<b>\$ 1,451,958</b>	<b>\$ 1,457,358</b>

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Auction rate preferred equity securities	\$ 322,150	\$ —	\$ —	\$ 322,150
U.S. Government and agencies	\$ 12,908	\$ 192	\$ (57)	\$ 13,043
Non-US government securities and other fixed term obligations	418,095	39	(160)	417,974
Corporate debt securities	4,473	25	—	4,498
Total debt securities	\$ 435,476	\$ 256	\$ (217)	\$ 435,515
<b>Total marketable securities</b>	<b>\$ 757,626</b>	<b>\$ 256</b>	<b>\$ (217)</b>	<b>\$ 757,665</b>

77

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

At December 31, 2002, USA beneficially owns 5.44% of the partnership common equity of VUE, plus certain preferred interests. This common interest is accounted for using the equity method. Due to the significance of the results of VUE in relation to USA's results, summary financial information for VUE is presented below. The investment was acquired May 7, 2002. Note that the statement of operations data is recorded on a one-quarter lag due to the timing of receiving information from the partnership. For the year ended December 31, 2002, USA recorded an equity pick-up of \$6.1 million.

In a press release dated March 6, 2003, Vivendi Universal announced its 2002 unaudited consolidated financial results, presented on a French GAAP basis. The Vivendi Universal press release stated 'the continued deterioration of economic conditions and of the book value of our recently acquired core assets led to management's decision to record further goodwill and intangible asset impairment charges in 2002... resulting in a charge of 6.5 billion euros relating to VUE.'



USA holds preferred and common interests in VUE. USA believes that the action taken by Vivendi Universal does not affect the value of USA's preferred interests in VUE, which are senior to the common interests in VUE, and the terminal value of which, pursuant to the VUE agreements, do not vary based on the value of VUE's businesses. USA also holds a 5.44% common interest, which is generally subject to a call right of Universal Studios beginning in 2007, and a put right of USA beginning in 2010, in both cases based generally on private market values at the time. USA has reviewed the carrying value of its common interest based upon information provided by VUE, including projections relating to future performance, and outside investment bankers, and believes that its carrying value is reasonable based on the present value of the range of such projections for 2007 and beyond. In its valuation, USA used private market EBITDA multiples since the VUE agreements provide that a call or put would be valued at private market valuations. While a private market value of VUE in today's environment would likely yield a value for USA's common interests below the current carrying value, as market valuations of media assets have declined since the close of the VUE transaction, USA continues to believe that the current carrying value of its common interests in VUE is attainable over the long-term. In consideration of these factors, in addition to the recency of its investment in VUE, USA does not believe there has been an other than temporary impairment in the value of its VUE common interests.

USA accounts for its common interest in VUE under the equity method of accounting. As previously disclosed, because of delays in VUE's financial reporting, USA records its proportionate share of the results of VUE on a one-quarter lag. As a result, USA has recorded its proportionate share of VUE's results for the period May 7, 2002 to September 30, 2002, which results did not reflect a charge for impairment of assets. As of this time, USA has not received results from VUE for the quarter ended December 31, 2002, and is therefore unable to determine the impact of the French GAAP charge reported in Vivendi Universal's press release on the results of VUE since USA's ownership beginning May 7, 2002, or if further write-downs may be taken by VUE. However, based on its review of the value of its VUE common interests described above, USA believes that an impairment charge, if recorded by VUE, would not necessarily indicate an impairment in the value of the assets on a long-term basis, but that simply USA must apply equity accounting under US GAAP and record its proportionate share of the results of VUE as prepared by VUE management. USA will update its analysis when it receives the results of VUE for the quarter ended December 31, 2002, and will also continue to assess the carrying value of the VUE securities. To the extent that USA management

78

subsequently determines that the declines in value of its interests are other than temporary, USA may take a write-down of its interest to fair value.

Summarized balances of the partnership are as follows:

	As of September 30, 2002 and for the Period May 7 to September 30, 2002	
	(In Thousands)	
Current assets	\$	1,700,495
Non-current assets		23,349,749
Current liabilities		3,628,532
Non-current liabilities		1,149,093
Net sales		2,205,304
Gross profit		797,696
Net income		162,059

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 was accounted for using the equity method until consolidation in the third quarter of 2002. 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. As of December 31, 2002, USA owns 100% of the equity of Hot Networks and thus the balances are consolidated.

	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)

79

Summarized aggregated financial information for the Company's remaining equity investments is summarized below.

	2002			2001			2000		
	(in thousands)								
Current assets	\$	107,934	\$	65,921	\$	57,432			
Non-current assets		48,189		32,266		12,781			
Current liabilities		78,530		35,594		21,443			
Non-current liabilities		27,851		10,144		8,136			

Net Sales	261,185	195,090	137,191
Gross profit	33,991	24,907	2,121
Net income (loss)	(24,585)	1,901	(3,264)

The following is a list of investments accounted for under the equity method, the principal market that the venture operates, and the relevant ownership percentage:

	2002	2001	2000
HOT Networks (Europe)(a)	46.7%	46.7%	46.7%
Jupiter Shop Channel (Japan)	30.0%	30.0%	30.0%
TVSN (China)	21.0%	21.0%	21.0%(b)
VUE (US)(c)	5.44%	—	—
TM Mexico	49.0%	50.0%	50.0%
TM Australia	50.0%	50.0%(d)	—
TM Ireland	—	—	50.0%(e)
GL Expedia	47.0%	—	—

- (a) The Company acquired voting control of the venture in July 2002, and thus consolidated from that date forward.
- (b) The Company acquired its interest in June 2000.
- (c) The Company acquired its interest in May 2002.
- (d) The Company acquired its interest in December 1995. Through June 2001 the Company exercised control over TM Australia and its assets, liabilities and results of operations were consolidated. In the third quarter of 2001, certain rights were relinquished and the Company no longer exercised control over TM Australia and, accordingly, the entity was deconsolidated and effective the third quarter of 2001 has been accounted for under the equity method of accounting.
- (e) In December 2000 the Company acquired an addition 10% of TM Ireland and, accordingly, effective the fourth quarter of 2000 the entities assets, liabilities and results of operations were consolidated.

The Company has other equity investments that have been written down to zero. Thus, these additional equity investments are not included in the table above.

## NOTE 20—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 was \$517.8 million, net of tax of \$377.4 million. USAB is presented as a discontinued operation for all periods presented.

### 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 VUE. VUE is controlled by Vivendi and its subsidiaries, with the common interests owned 93.06% by Vivendi and its subsidiaries, 5.44% by USA and 1.5% by Mr. Diller, Chairman and CEO of USA (economic interests in a portion of his common interests have been assigned by Mr. Diller to three executive officers of USA).

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 Vivendi at its then accreted face value with a maximum of approximately 56.6 million USA common shares, provided that Vivendi may substitute cash in lieu of shares of USA common stock (but not USA Class B common stock), at its election; (iv) a 5.44% common interest in VUE, generally callable by Universal after five years and puttable by USA after eight years, which may be settled in either Vivendi stock or cash, at Universal's election, and (v) a cancellation of Universal's USANi LLC interests that 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 retired approximately 320.9 million USANi LLC shares previously owned by Vivendi, thereby reducing USA's fully diluted shares to approximately 472 million shares as of June 30, 2002.

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 million 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 a subsidiary of Vivendi 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, received a common interest in VUE with a 1.5% profit sharing percentage, with a minimum value of \$275.0 million (economic interests in a portion of his common interests have been assigned by Mr. Diller to three executive officers of USA), 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. Mr. Diller served as chairman and chief executive officer of VUE from May 2002 until March 2003. The transaction has been accounted for as an asset sale.

USA's contribution of businesses to VUE and the receipt of consideration by USA results in an after tax gain of \$2.4 billion. The gain was determined as follows (in thousands):

Estimated fair value:	
Class A preferred interest in VUE	\$ 514,000
Class B preferred interest in VUE	1,428,530
Common interest in VUE	1,000,000
Cash	1,618,710
Estimated step-up in fair value of Home Shopping resulting from cancellation of LLC shares	1,213,876
<b>Total book value of consideration</b>	<b>5,775,116</b>
Entertainment net assets sold, net of minority interest	(498,046)
Transaction costs	(29,544)
<b>Pre tax gain</b>	<b>5,247,526</b>
<b>Tax provided</b>	<b>(2,058,342)</b>
<b>Taxable gain before allocation to warrant value</b>	<b>3,189,184</b>
<b>Fair value of warrants</b>	<b>(810,873)</b>
<b>Gain on transaction</b>	<b>\$ 2,378,311</b>

As a result of the step-up in the fair value of Home Shopping resulting from the cancellation of LLC shares of \$1.2 billion, the Company obtained an independent valuation of the assets and liabilities acquired, including identification of intangible assets other than goodwill, which identified \$487.7 million of intangible assets, including \$285.4 million for trade names (indefinite lived asset), and definite lived assets of \$144.5 million for distribution agreements, \$30.3 million for merchandise agreements, \$23.9 million for technology and \$3.7 million for customer lists. Intangible assets with definite lives will be amortized over a weighted average life of 4 years. None of the amounts allocated to goodwill or intangible assets are tax deductible. The Company recorded no adjustments to the historical carrying value of assets and liabilities, other than to goodwill and intangible assets, as a result of the step-up in fair value.

## Results of Discontinued Operations

The USA Entertainment Group and USAB are presented as discontinued operations for all applicable periods presented. The revenues and net income, net of the effect of minority interest for the USA Entertainment Group and USAB for the applicable periods, were as follows:

	Year Ended December 31,		
	2002	2001	2000
	(In Thousands)		
Net revenue	\$ 593,450	\$ 1,824,254	\$ 1,651,277
Income before tax and minority interest	135,837	420,621	298,840
Tax expense	(24,719)	(106,427)	(47,754)
Minority interest	(82,315)	(252,447)	(226,671)
<b>Net income</b>	<b>\$ 28,803</b>	<b>\$ 61,747</b>	<b>\$ 24,415</b>

During the three months ended March 31, 2001, USA Entertainment Group recorded expense of \$9.2 million related to the cumulative effect of adoption of SOP 00-2 "Accounting By Producers or Distributors of Films."

## NOTE 21—EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of Basic and Diluted earnings per share.

	Years Ended December 31,		
	2002	2001	2000

**Earnings (loss) from continuing operations:**

<b>Numerator:</b>				
Earnings (loss) from continuing operations	\$	7,378	\$ (186,799)	\$ (172,398)
Preferred stock dividends		(11,759)	—	—
Net earnings (loss) available to common shareholders		(4,381)	(186,799)	(172,398)
Effect of dilutive securities		(5,296)	—	—
Net earnings (loss) available to common shareholders after assumed conversions	\$	(9,677)	\$ (186,799)	\$ (172,398)

**Denominator:**

Denominator for basic and diluted earnings per share—weighted average shares(a)		426,317	374,101	359,688
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83

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

<b>Numerator:</b>				
Earnings (loss) before cumulative effect of accounting change	\$	2,414,492	\$ 392,795	\$ (147,983)
Preferred stock dividends		(11,759)	—	—
Net earnings (loss) available to common shareholders		2,402,733	392,795	(147,983)
Effect of dilutive securities		(5,296)	—	—
Net earnings (loss) available to common shareholders after assumed conversions	\$	2,397,437	\$ 392,795	\$ (147,983)

**Denominator:**

Denominator for basic and diluted earnings per share—weighted average shares(a)		426,317	374,101	359,688
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**Net earnings (loss):**

<b>Numerator:</b>				
Net Earnings (loss)	\$	1,953,103	\$ 383,608	\$ (147,983)
Preferred stock dividends		(11,759)	—	—
Net income (loss) available to common shareholders		1,941,344	383,608	(147,983)
Effect of dilutive securities		(5,296)	—	—
Net income (loss) available to common shareholders after assumed conversions	\$	1,936,048	\$ 383,608	\$ (147,983)

84

**Denominator:**

Denominator for basic and diluted earnings per share— weighted average shares(a)		426,317	374,101	359,688
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**Income (loss) per share:**

Basic earnings per share from income (loss) from continuing operations	\$	(0.01)	\$ (0.50)	\$ (0.48)
Gain on contribution of USA Entertainment to VUE, net of taxes		5.58	—	—
Gain on disposal of Broadcasting stations, net of taxes		—	1.38	—
Discontinued operations, net of taxes		0.07	0.17	0.07
Basic earnings per share from income (loss) from continuing operations before cumulative effect of accounting change		5.64	1.05	(0.41)
Cumulative effect of accounting change, net of taxes		(1.08)	(0.02)	—
Basic earnings per share from net income (loss)	\$	4.55	\$ 1.03	\$ (0.41)
Diluted earnings per share from income (loss) from continuing operations	\$	(0.02)	\$ (0.50)	\$ (0.48)
Gain on contribution of USA Entertainment to VUE, net of taxes		5.58	—	—
Gain on disposal of Broadcasting stations, net of taxes		—	1.38	—
Discontinued operations, net of taxes		0.07	0.17	0.07
Diluted earnings per share from income (loss) from continuing operations before cumulative effect of accounting change		5.62	1.05	(0.41)
Cumulative effect of accounting change, net of taxes		(1.08)	(0.02)	—
Diluted earnings per share from net income (loss)	\$	4.54	\$ 1.03	\$ (0.41)

- (a) Because the Company had a loss from continuing operations available to common shareholders, all potentially dilutive securities are not included in the denominator for computing dilutive earnings per share, since their impact on earnings per share from continuing operations would be anti-dilutive. In accordance with FASB No. 128, the same shares are used to compute all earnings per share amounts.

## NOTE 22—NOTES OFFERING AND GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

In December 2002, the Company issued \$750.0 of 7.0% Senior Notes (see Footnote 5) The notes, by their terms, are fully and unconditionally guaranteed by USANi LLC (the "Guarantor"). USANi LLC is wholly owned by the Company.

The following tables present condensed consolidating financial information for the years ended December 31, 2002, 2001, and 2000 for: (1) the Company on a stand-alone basis, (2) the Guarantor, USANi LLC, on a stand-alone basis, (3) the combined non-guarantor subsidiaries of the Company

85

(including the subsidiaries of USANi LLC (collectively, the "Non-Guarantor Subsidiaries")) and (4) the Company on a consolidated basis.

As of and for the Year Ended December 31, 2002

	USA	USANi LLC	Non-Guarantor Subsidiaries	Total Eliminations	USA Consolidated
<b>Balance Sheet as of December 31 2002:</b>					
Current Assets	\$ 18,798	\$ 2,690,872	\$ 1,912,552	\$ —	\$ 4,622,222
Property and equipment, net	—	24,172	407,283	—	431,455
Goodwill and other intangible assets, net	1,617,613	—	5,638,299	—	7,255,912
Investment in subsidiaries	8,846,735	3,051,106	—	(11,897,841)	—
Other assets	219,823	2,823,728	312,408	(2,435)	3,353,524
<b>Total assets</b>	<b>\$ 10,702,969</b>	<b>\$ 8,589,878</b>	<b>\$ 8,270,542</b>	<b>\$ (11,900,276)</b>	<b>\$ 15,663,113</b>
Current liabilities	\$ 186,949	\$ 27,556	\$ 1,327,602	\$ (651)	\$ 1,541,456
Long-term debt, less current portion	—	1,201,979	9,166	—	1,211,145
Other liabilities	2,384,946	—	91,074	(2)	2,476,018
Intercompany liabilities	(1,106,838)	935,066	171,772	—	—
Common stock exchangeable for preferred interest	1,428,530	—	—	—	1,428,530
Minority interest	(122,081)	—	636,762	559,820	1,074,501
Interdivisional equity	—	—	6,941,456	(6,941,456)	—
Shareholders' equity	7,931,463	6,425,277	(907,290)	(5,517,987)	7,931,463
<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,702,969</b>	<b>\$ 8,589,878</b>	<b>\$ 8,270,542</b>	<b>\$ (11,900,276)</b>	<b>\$ 15,663,113</b>
<b>Statement of operations for the year ended December 31, 2002</b>					
Revenue	\$ —	\$ —	\$ 4,621,224	\$ —	\$ 4,621,224
Operating expenses	(4,827)	(51,048)	(4,478,596)	—	(4,534,471)
Interest expenses, net	10,763	42,591	16,443	—	69,797
Other income (expense), net	1,442	(125,848)	(107,317)	122,201	(109,522)
Provision for income taxes	—	—	(5,572)	—	(5,572)
Minority interest	—	—	(13,814)	(20,264)	(34,078)
(Loss) earnings from continuing operations	7,378	(134,305)	32,368	101,937	7,378
Gain on contribution of USA Entertainment to VUE, net of taxes	2,378,311	—	—	—	2,378,311
Discontinued operations, net of tax	28,803	33,237	29,044	(62,281)	28,803
Cumulative effect of accounting change, net of tax	(461,389)	—	(461,389)	461,389	(461,389)
<b>Net income (loss)</b>	<b>1,953,103</b>	<b>(101,068)</b>	<b>(399,977)</b>	<b>501,045</b>	<b>1,953,103</b>
Preferred dividend	(11,759)	—	—	—	(11,759)
<b>Net earnings (loss) available to common</b>	<b>\$ 1,941,344</b>	<b>\$ (101,068)</b>	<b>\$ (399,977)</b>	<b>\$ 501,045</b>	<b>\$ 1,941,344</b>
<b>Cash Flow for the year ended December 31, 2002</b>					
Cash flows provided by (used in) operations	\$ (36,630)	\$ (8,717)	\$ 786,908	\$ —	\$ 741,561
Cash flows provided by (used in) investing activities	13,082	1,143,625	(888,793)	47,000	314,914
Cash flows provided by (used in) financing activities	23,548	391,446	348,627	(47,000)	716,621
Net Cash used by Discontinued Operations	—	—	(178,288)	—	(178,288)
Effect of exchange rate	—	—	11,130	—	11,130
Cash at beginning of period	—	207,463	184,713	—	392,176
<b>Cash at end of period</b>	<b>\$ —</b>	<b>\$ 1,733,817</b>	<b>\$ 264,297</b>	<b>\$ —</b>	<b>\$ 1,998,114</b>

86

As of and for the Year Ended December 31, 2001

	USA	USANi LLC	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
(In Thousands)					
<b>Balance Sheet as of December 31, 2001:</b>					
Current assets	\$ 572,430	\$ 796,233	\$ 965,871	\$ —	\$ 2,334,534
Property and equipment, net	—	24,755	374,232	—	398,987
Goodwill and other intangible assets, net	71,598	2,260	3,227,114	—	3,300,972
Investment in subsidiaries	3,525,102	7,301,359	—	(10,826,461)	—

Other assets	81,902	30,974	341,356	—	454,232
Net current assets of discontinued operations	—	—	38,343	—	38,343
<b>Total assets</b>	<b>\$ 4,251,032</b>	<b>\$ 8,155,581</b>	<b>\$ 4,946,916</b>	<b>\$ (10,826,461)</b>	<b>\$ 6,527,068</b>
Current liabilities	\$ 225,583	\$ 31,135	\$ 735,223	\$ —	\$ 991,941
Long-term debt, less current portion	—	498,515	45,857	—	544,372
Other liabilities	222,275	(311)	14,570	—	236,534
Intercompany liabilities	(142,327)	1,086,565	(944,238)	—	—
Minority interest	—	—	452,308	254,380	706,688
Interdivisional equity	—	—	3,840,046	(3,840,046)	—
Shareholders' equity	3,945,501	6,539,677	701,118	(7,240,795)	3,945,501
Net non current liabilities of discontinued operations	—	—	102,032	—	102,032
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,251,032</b>	<b>\$ 8,155,581</b>	<b>\$ 4,946,916</b>	<b>\$ (10,826,461)</b>	<b>\$ 6,527,068</b>

Statement of operations for the year ended December 31, 2001

Revenue	\$ —	\$ —	\$ 3,468,860	\$ —	\$ 3,468,860
Operating expenses	(10,725)	(34,154)	(3,640,404)	—	(3,685,283)
Interest expense, net	(21,757)	4,650	(2,078)	—	(19,185)
Other income (expense), net	(154,317)	299,621	(42,309)	(154,844)	(51,849)
Provision for income taxes	—	—	(2,450)	—	(2,450)
Minority interest	—	—	49,300	53,808	103,108
(Loss) income from continuing operations	(186,799)	270,117	(169,081)	(101,036)	(186,799)
Gain on disposal of Broadcasting Stations, net of tax	517,847	—	—	—	517,847
Discontinued operations, net of tax	61,747	67,752	61,747	(129,499)	61,747
Cumulative effect of accounting change from discontinued operations, net of tax	(9,187)	6,470	(9,187)	2,717	(9,187)
<b>Net Earnings (loss)</b>	<b>\$ 383,608</b>	<b>\$ 344,339</b>	<b>\$ (116,521)</b>	<b>\$ (227,818)</b>	<b>\$ 383,608</b>

Cash flows for the year ended December 31, 2001

Cash flows provided by (used in) operations	\$ (36,116)	\$ (25,770)	\$ 360,221	\$ —	\$ 298,335
Cash flows provided by (used in) investing activities	31,993	(564,675)	6,633	—	(526,049)
Cash flows provided by (used in) financing activities	4,123	745,346	(693,213)	—	56,256
Net Cash used by discontinued operations	—	—	348,174	—	348,174
Effect of exchange rate	—	(417)	(3,246)	—	(3,663)
Cash at the beginning of the period	—	52,979	166,144	—	219,123
<b>Cash at the end of the period</b>	<b>\$ —</b>	<b>\$ 207,463</b>	<b>\$ 184,713</b>	<b>\$ —</b>	<b>\$ 392,176</b>

87

As of and for the Year Ended December 31, 2000

	USA	USANi LLC	Non-Guarantor Subsidiaries	Eliminations	USA Consolidated
(In Thousands)					
Statement of operations for the year ended December 31, 2000					
Revenue	\$ —	\$ —	\$ 2,964,612	\$ —	\$ 2,964,612
Operating expenses	(15,184)	(37,369)	(3,261,805)	—	(3,314,358)
Interest expenses, net	(26,195)	22,208	(3,379)	—	(7,366)
Other income, expense	(131,019)	247,699	(108,677)	41,014	49,017
Provision for income taxes	—	—	(43,850)	—	(43,850)
Minority interest	—	—	104,584	74,963	179,547
Earnings (loss) from continuing operations	(172,398)	232,538	(348,515)	115,977	(172,398)
Discontinued operations, net of tax	24,415	97,339	24,415	(121,754)	24,415
<b>Net earnings (loss)</b>	<b>\$ (147,983)</b>	<b>\$ 329,877</b>	<b>\$ (324,100)</b>	<b>\$ (5,777)</b>	<b>\$ (147,983)</b>
Cash flows for the year ended December 31, 2000					
Cash flows provided by (used in) operations	\$ (34,654)	\$ (12,013)	\$ 133,988	\$ —	\$ 87,321
Cash flows provided by (used in) investing activities	18,711	35,046	(362,973)	—	(309,216)
Cash flows provided by (used in) financing activities	15,943	(125,442)	167,662	—	58,163
Net Cash used by discontinued operations	—	—	86,266	—	86,266
Effect of exchange rate	—	—	(2,687)	—	(2,687)
Cash at the beginning of the period	—	155,388	143,888	—	299,276
<b>Cash at the end of the period</b>	<b>\$ —</b>	<b>\$ 52,979</b>	<b>\$ 166,144</b>	<b>\$ —</b>	<b>\$ 219,123</b>

88

NOTE 23—RECONCILIATION OF NON-GAAP MEASURE

The following table reconciles operating profit (loss) to Adjusted EBITDA for the Company's industry segments (in millions):

2002

Operating profit (loss)	Depreciation	Amortization of cable distribution fees	Amortization of non-cash items	HSN disengagement costs	Restructuring charges not impacting EBITA	Adjusted EBITA
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HSN-US	\$	102	\$	53	\$	53	\$	32	\$	32	\$	—	\$	272
Ticketing		108		29		—		11		—		—		148
Match.com		23		8		—		5		—		—		36
Hotels.com		105		3		—		23		—		—		131
Expedia		88		14		—		61		—		—		163
Interval		(5)		2		—		7		—		—		4
Precision Response		(38)		38		—		22		—		—		28
Corp & other		(47)		9		—		(8)		—		—		(46)
Citysearch and related		(106)		8		—		54		—		—		(44)
International TV shopping & other		(82)		10		1		8		—		—		(31)
USA Electronic Commerce Solutions LLC/Stylelick		(61)		3		—		6		—		—		(51)
<b>TOTAL</b>	<b>\$</b>	<b>87</b>	<b>\$</b>	<b>177</b>	<b>\$</b>	<b>54</b>	<b>\$</b>	<b>221</b>	<b>\$</b>	<b>32</b>	<b>\$</b>	<b>39</b>	<b>\$</b>	<b>610</b>

**2001**

	Operating profit (loss)	Depreciation	Amortization of cable distribution fees	Amortization of non-cash items	HSN disengagement costs	Restructuring charges not impacting EBITA	Adjusted EBITA
HSN-US	\$ 106	\$ 49	\$ 42	\$ 31	\$ 4	\$ —	\$ 232
Ticketing	24	23	—	59	—	—	106
Match.com	(9)	2	—	24	—	—	17
Hotels.com	16	1	—	64	—	—	81
Precision Response	(41)	31	—	36	—	—	26
Corp & other	(38)	5	—	(2)	—	—	(35)
Citysearch and related	(164)	7	—	113	—	—	(44)
International TV shopping & other	(37)	4	2	4	—	—	(27)
USA Electronic Commerce Solutions LLC/Stylelick	(73)	9	—	—	—	6	(58)
<b>TOTAL</b>	<b>\$ (216)</b>	<b>\$ 131</b>	<b>\$ 44</b>	<b>\$ 329</b>	<b>\$ 4</b>	<b>\$ 6</b>	<b>\$ 298</b>

**2000**

	Operating profit (loss)	Depreciation	Amortization of cable distribution fees	Amortization of non-cash items	HSN disengagement costs	Restructuring charges not impacting EBITA	Adjusted EBITA
HSN-US	\$ 130	\$ 37	\$ 36	\$ 34	\$ —	\$ —	\$ 237
Ticketing	25	21	—	53	—	—	99
Match.com	(12)	1	—	17	—	—	6
Hotels.com	9	1	—	43	—	—	53
Expedia	—	—	—	—	—	—	0
Interval	—	—	—	—	—	—	—
Precision Response	(7)	18	—	24	—	—	35
Corp & other	(53)	2	—	13	—	—	(38)
Citysearch and related	(207)	7	—	134	—	—	(66)
International TV shopping & other	5	6	—	—	—	—	11
USA Electronic Commerce Solutions LLC/Stylelick	(240)	13	—	167	—	—	(60)
<b>TOTAL</b>	<b>\$ (350)</b>	<b>\$ 106</b>	<b>\$ 36</b>	<b>\$ 485</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 277</b>

89

**NOTE 24 —SUBSEQUENT EVENTS (unaudited)**

**Winding down operations of ECS and Stylelick**

In March 2003, ECS reached mutual agreement with its last remaining client regarding the termination of their relationship and as a result intends to wind down operations promptly following a transition period that is anticipated to continue until no later than June 2003. As previously disclosed by Stylelick, ECS has notified Stylelick of such termination and its intention to wind down operations.

In March 2003, Stylelick deregistered from reporting requirements.

**USA and Expedia Merger**

On March 19, 2003 USA Interactive and Expedia, Inc. announced that they have entered into an agreement by which USA, already the majority owner of Expedia, would acquire the Expedia shares it does not currently own in a stock-for-stock transaction that is generally tax-free to Expedia shareholders. The transaction is valued at \$3.3 billion, based on the closing price of USA common stock on March 19, 2003. The transaction allows USA to further simplify its corporate structure. The Expedia Board of Directors approved the agreement following the unanimous recommendation and approval of an independent Special Committee of the Expedia Board.

Under the agreement, Expedia shareholders would receive 1.93875 shares of USA common stock for each share of Expedia stock that they own, which represents approximately a 30% premium, based on the closing price of USA stock and Expedia stock on March 18, 2003. In the transaction, USA would issue to expedia public shareholders approximately 92.5 million basic shares and 124.9 million shares on a fully diluted, treasury method basis. In connection with the merger, Expedia warrants and options will be converted into warrants and options to acquire USA common stock.

**Stock Repurchase Authorization**

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

90

**PART IV**

**Item 15. 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, 2002, 2001 and 2000.  
 Consolidated Balance Sheets as of December 31, 2002 and 2001.  
 Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000.  
 Consolidated Statements of Cash Flows for Years Ended December 31, 2002, 2001 and 2000.  
 Notes to Consolidated Financial Statements.

(2) —Consolidated Financial Statement Schedule

**Schedule  
Number**

II Valuation and Qualifying Accounts

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.

(3) —Exhibits

The documents set forth below (numbered in accordance with Item 601 of Regulation S-K) are filed herewith or incorporated herein by reference to the location indicated.

Exhibit Number	Description	Location
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.	Appendix B to USA's Definitive Proxy Statement, dated November 20, 1996.
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.	Appendix A to USA's Definitive Proxy Statement, dated November 20, 1996.
2.3	Agreement and Plan of Merger, dated as of October 9, 2002, among USA Interactive, T Merger Corp. and Ticketmaster.	Exhibit 2.1 to USA's Current Report on Form 8-K, filed October 10, 2002.
2.4	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.	Appendix A to USA's Definitive Proxy Statement, dated January 12, 1998.
2.5	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.	Exhibit 10 to USA's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
2.6	Agreement and Plan of Merger, dated as of March 20, 1998, by and among USA, Brick Acquisition Corp. and Ticketmaster Group, Inc.	Exhibit 10.61 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.
2.7	Agreement and Plan of Merger, dated as of January 12, 2000, by and among Precision Response Corporation, USA and P Acquisition Corp.	Exhibit 1 to USA's Schedule 13D filed on January 19, 2000.
2.8	Amended and Restated Agreement and Plan of Recapitalization and Merger, dated as of July 15, 2001, by and among USA	Annex A to USA's Registration Statement on Form S-4 (No. 333-68120).



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2.9	Amended and Restated 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.	Exhibit 2.1 to USA's Current Report on Form 8-K, filed May 17, 2002.
2.10	Agreement and Plan of Merger, dated as of March 18, 2003, by and among USA Interactive, Equinox Merger Corp. and Expedia, Inc.	Exhibit 2.1 to USA's Current Report on Form 8-K, filed March 19, 2003.
3.1	Restated Certificate of Incorporation of USA.	Exhibit 3.1 to USA's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000.
3.2	Amendment to Restated Certificate of Incorporation of USA.	Exhibit A the USA's Definitive Information Statement, filed on November 19, 2001.
3.3	Certificate of Ownership and Merger Merging Taiwan Travel, Inc. into USA Networks, Inc.	Exhibit 3.3 to USA's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002.
3.4	Amended and Restated ByLaws of USA.	Exhibit 99.1 to USA's Current Report on Form 8-K, filed on September 20, 2002.
4.1	Indenture, dated as of November 23, 1998, among USA, USANi LLC, the Guarantors party thereto, and The Chase Manhattan Bank, as Trustee.	Exhibit 4.1 to USA's Registration Statement on Form S-4 (No. 333-71305).
4.2	Form of 6 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2005.	Exhibit B to Exhibit 4.1 to USA's Registration Statement on Form S-4 (No. 333-71305).
4.3	Certificate of Designations of Series A Cumulative Convertible Preferred Stock of USA.	Exhibit 4.3 to USA's Annual Report on Form 10-K for fiscal year ended December 31, 2001.
4.6	Equity Warrant Agreement, dated as of February 4, 2002, between USA and The Bank of New York, as equity warrant agent.	Exhibit 4.8 to USA's Annual Report on Form 10-K for fiscal year ended December 31, 2001.
4.7	Equity Warrant Agreement, dated as of May 7, 2002, between USA and The Bank of New York, as equity warrant agent.	Exhibit 4.1 to USA's Current Report on Form 8-K, filed May 17, 2002.
10.1*	Equity and Bonus Compensation Agreement, dated as of August 24, 1995, between Barry Diller and the Registrant.	Exhibit 10.26 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.
10.2*	1986 Stock Option Plan for Employees, dated as of August 1, 1986.	Exhibit 10.33 to Home Shopping's Registration Statement on Form S-1 (No. 33-8560).

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10.3*	First, Second, Third and Fourth Amendments to the 1986 Stock Option Plan for Employees.	Exhibit 10.31 to Home Shopping's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.
10.4*	Home Shopping Network, Inc. 1996 Stock Option Plan for Employees.	Exhibit A to the Home Shopping Definitive Proxy Statement, dated March 28, 1996.
10.5*	Silver King Communications, Inc. 1995 Stock Incentive Plan.	Appendix G to USA's Definitive Proxy Statement, dated November 20, 1996.
10.6*	Silver King Communications, Inc. Directors' Stock Option Plan.	Appendix H to USA's Definitive Proxy Statement, dated November 20, 1996.
10.7*	HSN, Inc. 1997 Stock and Annual Incentive Plan.	Exhibit F to USA's Definitive Proxy Statement, dated January 12, 1998.
10.8*	USA Networks, Inc. 2000 Stock and Annual Incentive Plan.	Exhibit 10.1 to USA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
10.9*	USA Networks, Inc. Deferred Compensation Plan For Non-Employee Directors.	Exhibit 10.2 to USA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
10.10*	Ticketmaster 1996 Stock Plan, as amended and restated.	Previously Filed.

10.11*	Ticketmaster 1999 Stock Plan, as amended.	Previously Filed.
10.12*	Ticketmaster Online-Citysearch, Inc. 1998 Stock Plan.	Previously Filed.
10.13*	Citysearch, Inc. 1996 Stock Option Plan.	Previously Filed.
10.14*	Ticketweb Inc. 2000 Stock Plan	Previously Filed.
10.15	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.	Exhibit 10.35 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.
10.16	Services and Trademark License Agreement, dated as of December 12, 1996, between Home Shopping Network, Inc. and Jupiter Shop Channel Co. Ltd.	Exhibit 10.36 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.
10.17	Warrant Agreement, dated as of April 20, 1994, between Savoy and GKH Partners, L.P.	Exhibit 10.2 to Savoy's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994.
10.18	Form of Spinoff Agreement between Liberty Media Corporation and Universal Studios, Inc. dated as of October 19, 1997.	Appendix D to USA's Definitive Proxy Statement, dated January 12, 1998.

94

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10.19	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.	Appendix C to USA's Definitive Proxy Statement, dated March 25, 2002.
10.20	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.	Appendix D to USA's Definitive Proxy Statement, dated March 25, 2002.
10.21*	Employment Agreement between Dara Khosrowshahi and USA, dated September 21, 2000.	Exhibit 10.1 to USA's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
10.22*	Employment Agreement between Julius Genachowski and USA, dated August 9, 2000.	Exhibit 10.43 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
10.23*	Extension of and Amendment to Employment Agreement between Julius Genachowski and USA, dated as of September 30, 2002.	Exhibit 10.1 to USA's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002.
10.24*	Employment Agreement between Daniel Marriott and USA, dated as of March 1, 2002.	Exhibit 10.1 to USA's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2002.
10.25*	Employment Agreement between Anne Busquet and USA, dated as of January 13, 2003.	Previously Filed.
10.26*	Employment Agreement between John Pleasants and USA, dated as of January 17, 2003.	Previously Filed.
10.27*	Employment Agreement between Thomas McInerney and USA, dated as of January 17, 2003.	Previously Filed.
10.28	Amended and Restated Limited Partnership Agreement of Vivendi Universal Entertainment LLLP, dated as of May 7, 2002, by and among USI Entertainment Inc., USANi Holdings XX, Inc., Universal Pictures International Holdings BV, Corp. II, USA Networks, Inc., USANi Sub LLC, New-U Studios Holdings, Inc. and Barry Diller.	Exhibit 99.1 to USA's Current Report on Form 8-K, filed May 17, 2002.

95

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10.29	Amendment No.1, dated November 25, 2002, to the Amended and Restated Limited Partnership Agreement of Vivendi Universal Entertainment LLLP, dated as of May 7, 2002, by and among USI Entertainment Inc., USANi Holdings XX, Inc., Universal Pictures International Holdings BV, Corp. USA Networks, Inc., USANi Sub LLC and New-U Studios Holdings, II, Inc.	Previously Filed.
21.1	Subsidiaries of USA.	Previously Filed.
23.1†	Consent of Ernst & Young LLP.	

23.2†	Consent of KPMG.	
23.3†	Consent of Ernst & Young LLP.	
31.1†	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.	
31.2†	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.	
32.1†	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.	
32.2†	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.	
99.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes—Oxley Act.	Previously Filed.
99.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes—Oxley Act.	Previously Filed.
99.3†	Consolidated Financial Statements of TVSN Asia Pacific (Holdings) Limited and Subsidiaries for the year ended December 31, 2002.	

96

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99.4† Consolidated Financial Statements and Report of Independent Auditors of H.O.T Networks GmbH and Subsidiaries for the years ended December 31, 2002, 2001 and 2000.

\* Reflects management contracts and compensatory plans.

† Filed herewith.

(b) Reports on Form 8-K filed during the quarter ended December 31, 2002:

On October 10, 2002, USA filed a report on Form 8-K reporting under Item 5, Other Events and Regulation FD Disclosure, announcing that it had agreed to acquire the outstanding shares of Ticketmaster common stock that it did not already own.

On October 10, 2002, USA filed a report on Form 8-K reporting under Item 9, Regulation FD Disclosure, announcing that it would release its results for the quarter ended September 30, 2002 and its Preliminary 2003 Budget on October 24, 2002.

On October 24, 2002, USA filed a report on Form 8-K reporting under Item 5, Other Events and Regulation FD Disclosure, attaching a press release announcing its results for the quarter ended September 30, 2002 and forward-looking financial information.

On October 25, 2002, USA filed a report on Form 8-K reporting under Item 5, Other Events and Regulation FD Disclosure, providing supplemental information.

On December 6, 2002, USA filed a report on Form 8-K reporting under Item 5, Other Events and Regulation FD Disclosure.

On December 9, 2002, USA furnished a report on Form 8-K reporting under Item 9, Regulation FD Disclosure, attaching investor presentation materials.

On December 12, 2002, USA filed a report on Form 8-K reporting under Item 5, Other Events and Regulation FD Disclosure, attaching a press release announcing that it had agreed to sell \$750 million aggregate principal amount of 7% senior notes due 2013 in a private placement.

97

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

February 10, 2004

InterActiveCorp (formerly USA Interactive)

William J. Severance  
Vice President and Controller  
(Chief Accounting Officer)

## USA INTERACTIVE AND SUBSIDIARIES

## VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charges to Earnings	Charges to Other Accounts	Deductions	Balance at End of Period
<b>2002</b>					
Allowance for doubtful accounts	\$ 16,252	\$ 27,371	\$ 9,677(2)	\$ (24,014)(1)	\$ 29,286
Inventory reserves	42,461	(4,155)	303(3)	(2,985)(4)	35,624
Sales return accrual	19,878	(2,153)			17,725
Deferred tax valuation allowance	98,265	79,713	99,307(5)	(33,554)(6)	243,731
Other reserves	1,446				9,162
<b>2001</b>					
Allowance for doubtful accounts	\$ 11,734	\$ 18,963	\$ 640(2)	\$ (15,085)(1)	\$ 16,252
Inventory reserves	38,778	5,259	—	(1,576)(4)	42,461
Sales return accrual	18,298	1,580			19,878
Deferred tax valuation allowance	61,387	36,878			98,265
Other reserves	275				1,446
<b>2000</b>					
Allowance for doubtful accounts	\$ 4,970	\$ 12,738	\$ 2,957 (2)	\$ (8,931)(1)	\$ 11,734
Inventory reserves	31,753	8,406	—	(1,381)(4)	38,778
Sales return accrual	13,495	4,803			18,298
Deferred tax valuation allowance	51,168	10,219			61,387
Other reserves	—				275

- (1) Write-off fully reserved accounts receivable.
- (2) Amounts relate primarily to the acquisition of Interval, TVTS and Expedia in 2002 and Precision Corporation and merger with Styleclick.com in 2000.
- (3) Acquisition of Interval in September 2002
- (4) Disposition of inventory during the year
- (5) Increase due to Expedia acquisition
- (6) TKTM utilization of valuation allowance

## QuickLinks

[Documents Incorporated By Reference](#)

[EXPLANATORY NOTE](#)

[INDEX](#)

[PART II](#)

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

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

[ASSETS](#)

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

[LIABILITIES AND SHAREHOLDERS' EQUITY](#)

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

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

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

[PART IV](#)

[SIGNATURES](#)

[USA INTERACTIVE AND SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS](#)

**CONSENT OF ERNST & YOUNG LLP**

We consent to the incorporation by reference in the following registration statements (and any amendments thereto) of our report dated February 6, 2003 (except for Note 19 and the financial statement schedule as to which the date is December 18, 2003) with respect to the consolidated financial statements and financial statement of InterActiveCorp (formerly USA Interactive) included in the Annual Report (Amendment No. 1 Form 10-K/A) for the year ended December 31, 2002, filed with the Securities and Exchange Commission:

COMMISSION FILE NO.

Form S-8, No. 033-53909  
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. 333-65335  
Form S-3, No. 333-81576  
Form S-3, No. 333-88850  
Form S-3, No. 333-87226  
Form S-8, No. 333-105095  
Form S-8, No. 333-105014  
Form S-8, No. 333-105876  
Form S-8, No. 333-104973  
Form S-8, No. 333-110247  
Form S-8, No. 333-101199

/s/ Ernst & Young LLP

New York, New York  
February 5, 2004

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QuickLinks

[CONSENT OF ERNST & YOUNG LLP](#)

The Board of Directors  
TVSN Asia Pacific (Holdings) Limited

**Independent Auditors' consent**

We consent to the incorporation by reference in the following registration statements of InterActiveCorp (formerly USA Interactive) of our report dated July 8, 2003, with respect to the consolidated balance sheet of TVSN Asia Pacific (Holdings) Limited as of December 31, 2002, and the related consolidated statements of earnings, and cash flows for the year ended December 31, 2002, included in the Annual Report (Amendment No. 1 Form 10-K/A) of InterActiveCorp (formerly USA Interactive) for the year ended December 31, 2002, filed with the Securities and Exchange Commission:

COMMISSION FILE NO.

Form S-8, No. 033-53909  
Form S-8, No. 333-18763  
Form 8-8, No. 333-37284  
Form S-8, No. 333-48863  
Form S-8, No. 333-57667  
Form S-3, No. 333-81576  
Form S-3, No. 333-87226  
Form S-8, No. 333-105014  
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Form S-8, No. 333-101199

Form S-8, No. 333-03717  
Form S-8, No. 333-34146  
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Form S-8, No. 333-48869  
Form S-8, No. 333-65335  
Form S-3, No. 333-88850  
Form S-8, No. 333-105095  
Form S-8, No. 333-105876  
Form S-8, No. 333-110247

KPMG

Hong Kong  
February 6, 2004

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**CONSENT OF ERNST & YOUNG LLP**

We consent to the incorporation by reference in the following registration statements (and any amendments thereto) of our report dated November 28, 2003 with respect to the consolidated financial statements of H.O.T. Networks GmbH and subsidiaries included in the Annual Report (Amendment No. 1 Form 10-K/A) for the year ended December 31, 2002, filed with the Securities and Exchange Commission:

COMMISSION FILE NO.

Form S-8, No. 033-53909  
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. 333-65335  
Form S-3, No. 333-81576  
Form S-3, No. 333-88850  
Form S-3, No. 333-87226  
Form S-8, No. 333-105095  
Form S-8, No. 333-105014  
Form S-8, No. 333-105876  
Form S-8, No. 333-104973  
Form S-8, No. 333-110247  
Form S-8, No. 333-101199

/s/ Ernst & Young LLP

New York, New York  
February 5, 2003

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[QuickLinks](#)

[CONSENT OF ERNST & YOUNG LLP](#)



**Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)  
or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended**

I, Barry Diller, Chairman and Chief Executive Officer of InterActiveCorp ("IAC"), certify that:

1. I have reviewed this annual report on Form 10-K/A of IAC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2004

/s/ BARRY DILLER

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Barry Diller  
Chairman and Chief Executive Officer

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QuickLinks

[Certification of the Chief Executive Officer pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) of the Securities Exchange Act of 1934, as amended](#)

**Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)  
or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended**

I, Dara Khosrowshahi, Executive Vice President and Chief Financial Officer of InterActiveCorp ("IAC"), certify that:

1. I have reviewed this annual report on Form 10-K/A of IAC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2004

By: /s/ DARA KHOSROWSHAHI

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Dara Khosrowshahi  
Executive Vice President and Chief Financial Officer

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QuickLinks

[Certification of the Chief Financial Officer pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) of the Securities Exchange Act of 1934, as amended](#)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry Diller, Chairman and Chief Executive Officer of InterActiveCorp (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- (1) the Annual Report on Form 10-K/A of the Company for the annual period ended December 31, 2002 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 10, 2004

/s/ BARRY DILLER

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Barry Diller  
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to InterActiveCorp and will be retained by InterActiveCorp and furnished to the Securities and Exchange Commission or its staff upon request.

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QuickLinks

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dara Khosrowshahi, Executive Vice President and Chief Financial Officer of InterActiveCorp (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

- (3) the Annual Report on Form 10-K/A of the Company for the annual period ended December 31, 2002 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (4) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 10, 2004

/s/ DARA KHOSROWSHAHI

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Dara Khosrowshahi  
Executive Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to InterActiveCorp and will be retained by InterActiveCorp and furnished to the Securities and Exchange Commission or its staff upon request.

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QuickLinks

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

# TVSN Asia Pacific (Holdings) Limited and subsidiaries

Financial Statements  
for the year ended 31 December 2002

[KPMG LOGO]

*Independent Auditors' Report*

The Board of Directors  
TVSN Asia Pacific (Holdings) Limited (incorporated in the British Virgin Islands):

We have audited the accompanying consolidated balance sheet of TVSN Asia Pacific (Holdings) Limited and subsidiaries as of December 31, 2002, and the related statements of income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Hong Kong. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TVSN Asia Pacific (Holdings) Limited and subsidiaries as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Hong Kong.

/s/ KPMG

Hong Kong, 8 July 2003

*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Financial statements for the year ended 31 December 2002*

**Consolidated income statement  
for the year ended 31 December 2002**  
*(Expressed in United States dollars)*

	Note	2002	2001	2000
			unaudited	unaudited
<b>Turnover</b>	3	\$ 8,479,803	\$ 5,524,100	\$ 2,835,353
Cost of sales		(4,719,667)	(3,306,449)	(1,991,796)
		<u>\$ 3,760,136</u>	<u>\$ 2,217,651</u>	<u>\$ 843,557</u>
Other revenue		7,637	132,262	447,568
Distribution costs		(6,474,460)	(6,272,935)	(5,227,344)
Administrative expenses		(8,004,928)	(6,571,770)	(6,450,844)
Other operating expenses		(3,506,501)	(1,060,785)	(1,332,259)
		<u>\$ (14,218,116)</u>	<u>\$ (11,555,577)</u>	<u>\$ (11,719,322)</u>
<b>Loss from ordinary activities before taxation</b>	4	\$ (14,218,116)	\$ (11,555,577)	\$ (11,719,322)
Taxation	5	—	—	\$ (8,909)

<b>Loss from ordinary activities after taxation</b>	\$	(14,218,116)	\$	(11,555,577)	\$	(11,728,231)
<b>Accumulated losses brought forward</b>		(29,153,002)		(17,597,425)		(5,869,194)
<b>Accumulated losses carried forward</b>	\$	(43,371,118)	\$	(29,153,002)	\$	(17,597,425)

No separate statement of changes in equity has been prepared as the net loss for the year would be the only component of this statement.

The notes on pages 5 to 23 form part of these financial statements.

*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Financial statements for the year ended 31 December 2002*

## **Consolidated balance sheet at 31 December 2002**

*(Expressed in United States dollars)*

	<b>Note</b>	<b>2002</b>	<b>2001</b>
			<b>unaudited</b>
<b>Non-current assets</b>			
Fixed assets	8	\$ 3,105,522	\$ 2,480,041
Intangible assets	9	30,628	39,260
Goodwill	10	950,262	1,001,628
		<u>\$ 4,086,412</u>	<u>\$ 3,520,929</u>
<b>Current assets</b>			
Inventories	12	\$ 2,593,473	\$ 1,498,601
Trade and other receivables	13	2,930,189	2,239,155
Cash and cash equivalents		1,828,866	2,772,132
		<u>\$ 7,352,528</u>	<u>\$ 6,509,888</u>
<b>Current liabilities</b>			
Trade and other payables	14	\$ 4,643,238	\$ 2,548,150
<b>Net current assets</b>		<u>\$ 2,709,290</u>	<u>\$ 3,961,738</u>
<b>Total assets less current liabilities</b>		<u>\$ 6,795,702</u>	<u>\$ 7,482,667</u>
<b>Non-current liabilities</b>			
Shareholders' loans	15	\$ (20,104,385)	\$ (6,573,234)
<b>NET (LIABILITIES)/ASSETS</b>		<u>\$ (13,308,683)</u>	<u>\$ 909,433</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	17	\$ 45,000	\$ 45,000
Capital surplus		30,017,435	30,017,435
Profit and loss account—adverse balance		(43,371,118)	(29,153,002)
		<u>\$ (13,308,683)</u>	<u>\$ 909,433</u>

The notes on pages 5 to 23 form part of these financial statements.

**Consolidated cash flow statement  
for the year ended 31 December 2002***(Expressed in United States dollars)*

	Note	2002	2001	2000
			unaudited	unaudited
<b>Operating activities</b>				
Loss from ordinary activities before taxation		\$ (14,218,116)	\$ (11,555,577)	\$ (11,719,322)
Adjustments for:				
Depreciation		972,522	630,306	331,953
Amortisation of goodwill		51,366	25,683	—
Amortisation of intangible assets		9,505	9,945	7,172
Loss on disposal of fixed assets		20,511	—	374,365
<b>Operating loss before changes in working capital</b>		<b>\$ (13,164,212)</b>	<b>\$ (10,889,643)</b>	<b>\$ (11,005,832)</b>
(Increase)/decrease in inventories		\$ (1,094,872)	\$ (961,477)	\$ 161,118
Increase in trade and other receivables		(691,034)	(1,009,753)	(74,906)
Increase/(decrease) in trade and other payables		2,095,088	575,878	(2,025,854)
<b>Net cash used in operating activities</b>		<b>\$ (12,855,030)</b>	<b>\$ (12,284,995)</b>	<b>\$ (12,945,474)</b>
<b>Investing activities</b>				
Payment for purchase of fixed assets		\$ (1,618,514)	\$ (1,728,912)	\$ (1,233,954)
Payment for purchase of intangible assets		(873)	—	(24,960)
Payment for purchase of a subsidiary, net of cash acquired	18	—	(1,026,949)	—
<b>Net cash used in investing activities</b>		<b>\$ (1,619,387)</b>	<b>\$ (2,755,861)</b>	<b>\$ (1,258,914)</b>
<b>Financing activities</b>				
Proceeds from new shares issue		\$ —	\$ —	\$ 16,650,000
Proceeds from new loans from shareholders		13,531,151	6,573,234	775,252
<b>Net cash from financing activities</b>		<b>\$ 13,531,151</b>	<b>\$ 6,573,234</b>	<b>\$ 17,425,252</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>\$ (943,266)</b>	<b>\$ (8,467,622)</b>	<b>\$ 3,220,864</b>
<b>Cash and cash equivalents at 1 January</b>		<b>\$ 2,772,132</b>	<b>\$ 11,239,754</b>	<b>\$ 8,018,890</b>
<b>Cash and cash equivalents at 31 December</b>		<b>\$ 1,828,866</b>	<b>\$ 2,772,132</b>	<b>\$ 11,239,754</b>

The notes on pages 5 to 23 form part of these financial statements.

**Notes on the financial statements***(Expressed in United States dollars)***1 Basis of preparation of the financial statements**

**(a) Organisation and nature of operations**

TVSN Asia Pacific (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") are engaged in the retailing of products in the People's Republic of China ("PRC"). Sales are made as a result of retail sales programmes shown on television channels in the PRC, through catalogues and the operation of retail outlets.

The current laws of the PRC restrict the extent of foreign ownership in PRC entities in certain industries including both retailing and advertising. As set out in note 11, TVSN China Limited ("TVSN China"), a wholly owned subsidiary of the Company, holds 65% and 49% equity interests in Home Shopping Shanghai Limited ("HSSL") and Visualstar Limited ("Visualstar") respectively which represent the maximum foreign ownership currently permitted in these companies. The remaining 35% equity in HSSL is owned by a PRC incorporated entity in which neither the Company nor any of its subsidiaries or shareholders has an equity interest. The remaining 51% equity in Visualstar is owned by a subsidiary of this PRC entity.

During the year ended 31 December 2002, the Group entered into agreements with the other shareholders of HSSL and Visualstar whereby TVSN China has been granted an option to acquire additional equity interests in HSSL and Visualstar at such time as the PRC laws permit, in order that TVSN China may hold the maximum equity interest permissible for foreign investors in these companies under the applicable PRC laws. Similar to any share purchase transaction that involves a PRC state-owned enterprise, the exercise of such option is subject to the approval of the relevant PRC authorities. The agreements provide that the purchase price payable by TVSN China on exercise of such option shall be in proportion to the net assets of HSSL and Visualstar acquired at the time of exercising the option, but shall in no case be less than the registered capital subscribed by the other shareholders in HSSL and Visualstar respectively.

At 31 December 2002 TVSN China has made interest free loans totaling \$3,779,188 (2001: \$2,029,188) and \$153,000 (2001: \$153,000) to a subsidiary of the other shareholder in HSSL to finance this shareholder and its subsidiary's investments in the registered capital of HSSL and Visualstar respectively. The loan agreements provide that settlement of these loans can only be made by set off against the amounts payable by TVSN China upon exercise of its above options to increase its equity interest in HSSL and Visualstar (at such time as the PRC laws permit and subject to the approval of the relevant PRC authorities) and that the loans are not repayable in any other manner.

Visualstar provides HSSL with advertising related services and its sole source of income to date has been from service fees charged to HSSL. Given this and the terms of the loan and option agreements above, the directors consider that the Group has effective control over Visualstar.

5

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*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

The directors are of the opinion that, following the PRC's accession to the World Trade Organisation, the PRC laws will be amended to enable TVSN China to exercise its options to increase its equity interests in HSSL and Visualstar. The directors' intention is that, as soon as the PRC laws permit, TVSN China will exercise its option to increase its equity interests in HSSL and Visualstar to the maximum extent permissible under PRC law.

Both HSSL and Visualstar have incurred accumulated losses as at 31 December 2002. In view of the terms of the above loan and other agreements, the directors consider that the Group will be required to fund the entire losses of HSSL and Visualstar. Accordingly, the directors consider it appropriate to account for the above loans as part of TVSN China's cost of investment in HSSL and Visualstar and to consolidate the results and financial position of HSSL and Visualstar within the accounts of the Group as if these entities were wholly owned by the Group.

**(b) Going concern**

As of 31 December 2002, the Group's total liabilities exceed its total assets by \$13,308,683. Search Capital Partners Limited, the majority shareholder, has confirmed that it will provide such financial support to TVSN Asia Pacific (Holdings) Limited ("the Company") and its subsidiaries as is required to enable them to meet their debts as they fall due. On the strength of this assurance, the financial statements have been prepared on a going concern basis.

6

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*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

**2 Significant accounting policies**

**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The measurement basis used in the preparation of the financial statements is historical cost. A summary of the significant accounting policies is set out below.

The financial statements were authorized by the board of directors on 8 July 2003.

**(b) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

**(i) Sale of goods**



Revenue is recognised when goods are dispatched. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

The Group has entered into agreements with the minority shareholder in HSSL, whereby this entity ("the Distributor"), undertook, on instruction by the Group, to make sales and purchases of certain products advertised by the Group. The agreements provide that the proceeds from such sales, less purchase and other costs incurred by the Distributor, are payable by the Distributor to the Group and that the Distributor has no rights or entitlement to such monies, other than a fixed service fee, details of which are set out in note 20. As the Group bears the risks and rewards associated with these transactions, the directors consider it appropriate and in accordance with the substance of the arrangements to account for such transactions as if they had been entered into by the Group.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

7

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TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002

(c) **Subsidiaries and controlled enterprises**

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. An entity is also considered to be a subsidiary when the substance of the relationship between the Company and the entity is such that the entity is controlled by the Company. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-Group balances and transactions, and any unrealised profits arising from intra-Group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-Group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of 20 years. Goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 2(i)).

(e) **Fixed assets**

(i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 2(h)) and impairment losses (see note 2(i)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

8

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TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(f) **Intangible assets (other than goodwill)**

(i) Intangible assets that are acquired by the Group primarily represent acquired trade marks and are stated in the balance sheet at cost less accumulated amortisation (see note 2(h)) and impairment losses (see note 2(i)).

(ii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(g) **Leased assets**

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

**(h) Amortisation and depreciation**

(i) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	over the unexpired period of the lease
Computer and office equipment	3 to 5 years
Film production equipment	4 years
Furniture and fixtures	5 years

(ii) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the respective assets' estimated useful lives.

**(i) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

—fixed assets;

—intangible assets; and

—goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over the estimated useful lives from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

**(j) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Merchandise purchased by and in the legal name of the Distributor under the arrangements disclosed in note 2(b) is included in the Group's inventory as if it had been purchased by the Group. As disclosed in note 2(b), the Group bears the risks and rewards associated with ownership of such merchandise.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(k) Cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition.

**(l) Employee benefits**

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to retirement benefit plans and other retirement benefits paid are charged to the income statement in the period in which they are incurred.
- (iii) When the Company's immediate subsidiary, TVSN China (Holdings) Limited grants employees options to acquire shares of TVSN China (Holdings) Limited at nil consideration, no employee benefit cost or obligation is recognised at the date of grant.

11

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*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

**(m) Deferred taxation**

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

**(n) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(o) Translation of foreign currencies**

Individual companies within the Group maintain their books and records in their functional currency.

In the financial statements of individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective functional currencies at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the individual companies' income statement.

The Group's functional currency is the Renminbi. For the purpose of consolidation, all balance sheet items of subsidiaries with functional currencies other than Renminbi are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The results of subsidiaries with functional currency other than Renminbi are translated into Renminbi at the average exchange rates for the year. The resulting exchange differences are inconsequential for each of the three years ended 31 December 2002.

The consolidated financial statements are expressed in United States Dollars ("USD") and have been translated into USD at the noon buying rate in New York City on December 31, 2002 for cable transfers in RMB as certified by the Federal Reserve Bank of New York of US\$1.00=RMB8.28

12

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*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

**(p) Related parties**

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### 3 Turnover

The principal activity of the Group is retailing. Turnover represents the sales value of goods supplied to customers less discounts and returns.

### 4 Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging:

	2002	2001	2000
		unaudited	unaudited
Cost of inventories	\$ 4,505,781	\$ 2,985,772	\$ 1,940,175
Fulfillment costs	1,871,647	1,730,684	1,382,488
Signal distribution costs	4,602,813	4,542,251	3,844,856
Marketing costs	1,582,142	115,322	—
Production costs	981,128	760,095	764,816
Staff costs	4,929,126	4,294,871	3,774,482
Bad debt provision	78,342	—	—
Office rental—operating lease	573,315	236,574	243,502
Professional fees	333,393	241,279	721,045
Depreciation	972,522	630,306	331,953
Amortisation of goodwill	51,366	25,683	—
Amortisation of intangible assets	9,505	9,945	7,172
Auditors' remuneration	34,000	35,485	31,984
Loss on disposal of fixed assets	20,511	—	374,365
Interest expenses	846,308	113,064	—

13

*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

### 5 Taxation

- (a) Taxation in the profit and loss account represents provision for taxation calculated at the appropriate rates of taxation ruling in the relevant countries. No provision for taxation has been made in the years ended 31 December 2002 and 31 December 2001 as the Group did not earn profits assessable to profits tax.
- (b) No provision for deferred tax benefits has been made as their realisation is not assured beyond reasonable doubt.

### 6 Directors' remuneration

Directors' remuneration is as follows:

	2002	2001	2000
		unaudited	unaudited
Fees	Nil	Nil	Nil
Salaries and other emoluments	\$ 700,000	\$ 500,000	\$ 225,000

In addition to the above emoluments, a director of the Company had the following interests in options to subscribe for shares in the Company's immediate subsidiary, TVSN China (Holdings) Limited. Such options were granted at nil consideration under the share option scheme of TVSN China (Holdings) Limited. The details of these options are disclosed under the paragraph "Share option Scheme" in note 16.

	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options	Market value per share at date of grant of options	Market value per share on exercise options
Steve Franklin	108,000	3 June 2000	Set out in note 16 of the	Nil	US\$17.62	US\$17.62	N/A

7 **Change in accounting policies**

Translation of financial statements of foreign enterprises

In prior years, the results of foreign enterprises were translated into Renminbi at the rates of exchange ruling at the balance sheet date. With effect from 1 January 2002, in order to comply with Statement of Standard Accounting Practice 11 (revised) issued by the Hong Kong Society of Accountants, the Company translates the results of foreign enterprises at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

8 **Fixed assets**

	Leasehold Improvements	Computer and office equipment	Film production equipment	Furniture and fixtures	Total
<b>Cost:</b>					
At 1 January 2002	\$ 250,808	\$ 1,304,784	\$ 1,799,604	\$ 34,816	\$ 3,390,012
Additions	1,015,956	472,750	120,457	9,351	1,618,514
Disposals	(18,247)	(20,085)	—	(3,113)	(41,445)
At 31 December 2002	\$ 1,248,517	\$ 1,757,449	\$ 1,920,061	\$ 41,054	\$ 4,967,081
<b>Accumulated depreciation:</b>					
At 1 January 2002	\$ 120,092	\$ 472,616	\$ 303,303	\$ 13,960	\$ 909,971
Charge for the year	134,384	439,878	393,078	5,182	972,522
Written back on disposal	(13,685)	(6,056)	—	(1,193)	(20,934)
At 31 December 2002	\$ 240,791	\$ 906,438	\$ 696,381	\$ 17,949	\$ 1,861,559
<b>Net book value:</b>					
At 31 December 2002	\$ 1,007,726	\$ 851,011	\$ 1,223,680	\$ 23,105	\$ 3,105,522
At 31 December 2001	\$ 130,716	\$ 832,168	\$ 1,496,301	\$ 20,856	\$ 2,480,041

9 **Intangible assets**

<b>Cost:</b>	
At 1 January 2002	\$ 56,377
Additions	873
At 31 December 2002	\$ 57,250
<b>Accumulated amortisation:</b>	
At 1 January 2002	\$ 17,117
Charge for the year	9,505
At 31 December 2002	\$ 26,622
<b>Net book value:</b>	

At 31 December 2002	\$ 30,628
At 31 December 2001	\$ 39,260

The amortisation charge for the year is included in "other operating expenses" in the consolidated income statement.

15

*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

## 10 Goodwill

<b>Cost:</b>	
At 1 January and 31 December 2002	\$ 1,027,311
<b>Accumulated amortisation:</b>	
At 1 January 2002	\$ 25,683
Amortisation for the year	51,366
At 31 December 2002	\$ 77,049
<b>Carrying amount:</b>	
At 31 December 2002	\$ 950,262
At 31 December 2001	\$ 1,001,628

## 11 Subsidiaries

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. All of these entities have been consolidated into the Group financial statements (see note 1(a)).

Name of company	Place of incorporation and operation	Particulars of paid up capital	Proportion of ownership interest (%)			Principal activity
			Group's effective interest	held by the Company	held by subsidiary	
TVSN China (Holdings) Limited	British Virgin Islands	\$ 35,546	100	100	—	Dormant
TVSN China Limited	Hong Kong	\$ 64,103	100	—	100	Retailing
Home Shopping Shanghai Ltd.	People's Republic of China	\$ 11,800,000	65#	—	65	Retailing
EC 2 Limited	People's Republic of China	\$ 350,000	100	—	100	Dormant
TVSN International Trading (Shanghai) Co., Ltd.	People's Republic of China	\$ 200,000	100	—	100	Dormant
Visualstar Limited	People's Republic of China	\$ 300,000	49#	—	49	Media products design, production and distribution

# for the reasons disclosed in note 1(a) these entities have been consolidated into the Group's financial statements as if they were wholly owned by the Group.

16

*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

## 12 Inventories

Inventories represent merchandised goods and are expected to be realised within one year.

### 13 Trade and other receivables

	2002	2001
		unaudited
Amounts due from shareholders	\$ 14,837	\$ 5,986
Debtors, deposits and prepayments	2,915,352	2,233,169
	<u>\$ 2,930,189</u>	<u>\$ 2,239,155</u>

All of the trade and other receivables are expected to be recovered within one year.

### 14 Trade and other payables

	2002	2001
		unaudited
Amounts due to shareholders	\$ 963,021	\$ 113,060
Creditors	1,737,947	473,228
Other payables	521,869	501,237
Accrued charges	1,420,401	1,460,625
	<u>\$ 4,643,238</u>	<u>\$ 2,548,150</u>

All of the trade and other payables are expected to be settled within one year.

### 15 Shareholders' loans

Shareholders' loans are unsecured long term loans and are repayable on 31 December 2005. Shareholders' loans comprise the following:

#### *Non-interest bearing loans*

	2002	2001
		unaudited
Search Capital Partners Limited	\$ 1,869,181	\$ 1,554,600
HSN Capital LLC	757,483	630,000
TVSN Investors (PAPE I) Limited	980,400	815,399
	<u>\$ 3,607,064</u>	<u>\$ 2,999,999</u>

#### *Interest bearing loans*

Interest bearing loans bear interest at rates ranging from 6.84% to 13.65% per annum.

	2002	2001
		unaudited
Search Capital Partners Limited	\$ 13,539,114	\$ 2,846,470
HSN Capital LLC	2,958,207	726,765
	<u>\$ 16,497,321</u>	<u>\$ 3,573,235</u>
Total shareholders' loans	<u>\$ 20,104,385</u>	<u>\$ 6,573,234</u>

**16 Equity compensation benefits**

The Company has a share option scheme which was adopted on 1 June 2000 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company's immediate subsidiary, TVSN China (Holdings) Limited. The exercise price of options is fixed at US\$8.81 per share for certain employees specified upon the adoption of the plan ("designated employees"). The exercise price of options for all other employees ("non-designated employees") is fixed at US\$17.62 per share. The options vest in equal instalments over 5 and 4 years commencing one year after the date on which the option is granted for designated employees and non-designated employees respectively. The options are only exercisable upon the occurrence of certain conversion events specified in the terms of the plan. All options expire no later than the earlier of 1 July 2008 or 90 days after the date on which the options become exercisable.

Up to 31 December 2002, none of the conversion events have taken place.

*(a) Movements in share options*

	2002	2001
	Number	unaudited Number
At 1 January	300,486	285,636
Issued	142,650	14,850
At 31 December	443,136	300,486
Options vested at 31 December	306,268	171,336

*(b) Terms of unexpired and unexercised share options at balance sheet date*

	2002	2001
	Number	unaudited Number
Exercise price		
\$8.81	58,050	58,050
\$17.62	385,086	242,436
	443,136	300,486

*(c) Details of share options granted during the year, all of which were granted for nil consideration*

	2002	2001
	Number	unaudited Number
Exercise price		
\$17.62	142,650	14,850

**17 Share capital**

	2002 & 2001
<b>Authorized:</b>	
Ordinary shares of US\$0.01 each	\$ 80,000



**Issued and fully paid:**

Ordinary shares of US\$0.01 each	\$ 45,000
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**18 Acquisition of a subsidiary**

On 11 June 2001, the Group acquired an effective 100% interest in Home Shopping Shanghai Ltd. for \$1,026,980, satisfied in cash.

<b>Net assets acquired:</b>	
Cash at bank and in hand	\$ 31
Creditors and accrued charges	(362)
	\$ (331)
Positive goodwill arising on consolidation	1,027,311
	1,026,980
Total purchase price paid, satisfied in cash	\$ 1,026,980
Less: Cash of the subsidiary acquired	(31)
Net cash used in respect of the purchase of a subsidiary	\$ 1,026,949

**19 Commitments and contingencies**

- (a) At 31 December 2002, the Group had commitments under television advertising and service contracts to make payments in the following years as follows:

	2002	2001
		unaudited
Within 1 year	\$ 2,070,960	\$ 4,265,013
After 1 year but within 5 years	1,455,877	3,298,877
After 5 years	—	—
	\$ 3,526,837	\$ 7,563,890

20

*TVSN Asia Pacific (Holdings) Limited and subsidiaries*  
*Accounts for the year ended 31 December 2002*

- (b) At 31 December 2002, the minimum lease payments under non-cancellable operating leases are payable as follows:

	2002	2001
		unaudited
Within 1 year	\$ 548,099	\$ 242,006
After 1 year but within 5 years	136,556	96,291
	\$ 684,655	\$ 338,297

**20 Material related party transactions**

As disclosed in note 2(b), the PRC investor of HSSL provides services to the Group. Service fee charges payable to this entity during the year ended 31 December 2002 amounted to \$471,014 (2001:\$471,014, 2000: \$nil).

Loans made to a related party of the other shareholders in HSSL and Visualstar are disclosed in note 1(a) on the accounts.

On 26 July 2001 the Company and its subsidiary, TVSN China (Holdings) Limited, entered into an agreement with the other shareholders in HSSL and Visualstar and one of their related parties which provides that, subject to the fulfillment of certain conditions precedent, or waiver thereof by the Company, TVSN China (Holdings) Limited has agreed to grant these parties warrants enabling them to subscribe for shares in TVSN China (Holdings) Limited at an exercise price of US\$17.62 per share (subject to adjustment in the event of any consolidation, sub-division or reduction of the share capital of TVSN China (Holdings) Limited or the Company). The number of shares in TVSN China (Holdings) Limited which are eligible for purchase under the

warrant agreement varies depending on the date upon which the conditions precedent are fulfilled. At 31 December 2002, warrants to purchase 360,000 shares of TVSN China (Holdings) Limited, representing 8% of its issued share capital, were granted.

## 21 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2002 to be Search Capital Partners Limited, which is incorporated in the British Virgin Islands.

21

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*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

## 22 Summary of significant differences between generally accepted accounting principles ("GAAP") in Hong Kong and U.S. GAAP

The following is a general summary of significant differences between Hong Kong GAAP and U.S. GAAP as applicable to the Group:

The financial position and the results of operations of the Group have been prepared in accordance with Hong Kong GAAP, which differs in certain significant respects from U.S. GAAP. Certain significant differences between Hong Kong GAAP and U.S. GAAP that would have had an impact on the Group's financial position and results are summarised below. The Group has not quantified the effects of the differences between Hong Kong GAAP and U.S. GAAP, and therefore there can be no assurance that the financial position and results of operations reported in accordance with Hong Kong GAAP would not be adversely impacted if determined in accordance with U.S. GAAP. Such summary should not be construed to be exhaustive. Additionally, no attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the Group's financial position and results or notes thereto. No attempt has been made to identify all future differences between Hong Kong GAAP and US GAAP that may affect the Group's financial statements as a result of transactions or events that may occur in the future.

### Accounting for goodwill

Under Hong Kong GAAP, goodwill arising from transactions completed from January 1, 2001 onwards is capitalised and amortised on a straight-line basis over its estimated useful life. The amortisation charge for each period is recognised as an expense. Goodwill is required to be tested whenever there are indications that impairment may exist. An impairment loss is recognised in the income statement whenever the carrying amount of goodwill exceeds its recoverable amount estimated at each balance sheet date.

For U.S. GAAP purposes, prior to January 1, 2002, goodwill arising on acquisitions was accounted for as an asset and amortised over the estimated period of benefit. Effective January 1, 2002, SFAS No. 142, "Goodwill and Other Intangible Assets" requires that goodwill with an indefinite useful life no longer be amortised but instead be tested for impairment upon first adoption and annually thereafter, or more frequently if events or changes in circumstances indicate that it might be impaired, using the prescribed two-step process. The first step screens for potential impairment of goodwill if the fair value of the reporting unit is less than its carrying value, while the second step measures the amount of goodwill impairment, if any, by comparing the implied fair value of goodwill to its carrying value.

22

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*TVSN Asia Pacific (Holdings) Limited and subsidiaries  
Accounts for the year ended 31 December 2002*

### Stock option plan and warrants

The Group has adopted a stock option plan for employees and has also issued warrants to related parties giving the right to subscribe for shares in a subsidiary company. The Group follows the current practice in Hong Kong that no accounting entries are made when granting share options or warrants.

Under U.S. GAAP, stock compensation expense is recorded in an entity's financial statements when options on the stock are granted to its employees. Under Accounting Principles Board No. 25, the amount of stock compensation expense is determined based upon the excess, if any, of the quoted market price of the stock over the exercise price of the options at the date of the grant and is amortized over the vesting period of the options concerned.

Under US GAAP the warrants would be accounted for as part of the Group's interest in HSSL and Visualstar.

### Deferred taxation

Under Hong Kong GAAP the Group provides deferred taxes for timing differences only to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

US GAAP requires full provision for deferred taxes under the asset and liability method for all temporary differences. Valuation allowances are recorded for deferred tax assets for which it is more likely than not that such assets will not be realised.

23

[Consolidated income statement for the year ended 31 December 2002](#)

[Consolidated balance sheet at 31 December 2002](#)

[Consolidated cash flow statement for the year ended 31 December 2002](#)

[Notes on the financial statements](#)

Consolidated Financial Statements and Report of Independent Auditors  
**H.O.T. Networks GmbH and Subsidiaries**  
For the years ended December 31, 2002, 2001 and 2000

CONTENTS

	<u>Page</u>
Report of Independent Auditors	3
Consolidated Financial Statements	
Consolidated Statements of Operations	4
Consolidated Balance Sheets	5-6
Consolidated Statements of Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9-21

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders  
H.O.T. Networks GmbH and Subsidiaries

We have audited the accompanying consolidated balance sheet of H.O.T. Networks GmbH and subsidiaries as of December 31, 2002, and the related consolidated statement of operations, shareholders' equity and cash flows for the year ended December 31, 2002. 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 audit.

We conducted our audit 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 audit 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 H.O.T. Networks GmbH and subsidiaries at December 31, 2002 and the consolidated results of its operations and its cash flows for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the consolidated financial statements, on January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Accounting for Goodwill and Other Intangible Assets."

/s/ Ernst & Young LLP

New York, New York  
November 28, 2003

H.O.T. NETWORKS GmbH AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2002	2001	2000
		(unaudited)	(unaudited)
		(In '000 Euros)	
Service revenue	€ 43,153	€ 8,628	€ 3,500
Sales	23,691	13,229	2,797

Net revenue	66,844	21,857	6,297
Operating costs and expenses:			
Cost of sales-service revenue	2,612	5,405	2,931
Cost of sales	21,276	13,270	2,946
Gross profit	42,956	3,182	420
Selling and marketing	4,771	6,641	1,277
General and administrative	44,195	60,211	20,868
Engineering and programming	22,075	18,908	1,304
Restructuring charges	124,640	3,500	—
Amortization	—	2,645	598
Depreciation	9,102	9,633	2,923
Operating loss	(161,827)	(98,356)	(26,550)
Other income (expense):			
Interest income	278	556	123
Interest expense	(23,646)	(12,177)	(1,376)
Other (expense) income	(1,794)	—	386
Gain on sale of fixed assets	3,206	—	—
Equity in losses in unconsolidated subsidiaries and other	(5,587)	(16,692)	—
Total other income (expense), net	(27,543)	(28,313)	(867)
Loss from operations before income taxes and minority interest	(189,370)	(126,669)	(27,417)
Income tax (expense) benefit	(4)	35	—
Minority interest	(3,253)	6,100	1,384
Net loss	€ (192,627)	€ (120,534)	€ (26,033)

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

## H.O.T. NETWORKS GmbH AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

#### ASSETS

December 31,  
2002

December 31,  
2001

(unaudited)

(In '000 Euros)

#### CURRENT ASSETS:

Cash	€ 5,756	€ 17,504
Accounts receivable, net of allowance of €110 and €171, respectively	18,407	14,570
Inventories, net	—	9,393
Other current assets, net	1,292	2,152
Total current assets	25,455	43,619

#### PROPERTY, PLANT AND EQUIPMENT:

Computer and broadcast equipment	2,105	25,938
Buildings and leasehold improvements	1,361	24,676

Furniture and other equipment	10,624	29,264
Land	—	14,458
Projects in progress	—	18,329
	14,090	112,665
Less: accumulated depreciation and amortization	(12,119)	(25,062)
<b>Total property, plant and equipment</b>	<b>1,971</b>	<b>87,603</b>
<b>OTHER ASSETS:</b>		
Goodwill	135,483	60,019
Intangible assets, net	49,392	312
Long-term investments	—	20,216
Other, net	4,678	3,865
<b>Total other assets</b>	<b>189,553</b>	<b>84,412</b>
<b>TOTAL ASSETS</b>	<b>€216,979</b>	<b>€215,634</b>

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

5

## H.O.T. NETWORKS GmbH AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

#### LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2002	December 31, 2001
		(unaudited)
	(In '000 Euros)	
<b>CURRENT LIABILITIES:</b>		
Accounts payable, trade	€5,985	€27,142
Other current liabilities	13,421	24,744
Current maturities of long-term obligations	—	15,178
Other accrued liabilities	—	2,828
<b>Total current liabilities</b>	<b>19,406</b>	<b>69,892</b>
<b>Long-Term obligations, net of current maturities</b>	<b>38</b>	<b>657</b>
<b>Shareholder loans</b>	<b>352,742</b>	<b>277,938</b>
<b>Deferred income taxes</b>	<b>—</b>	<b>1,822</b>
<b>Minority interest</b>	<b>172,167</b>	<b>—</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock—€1 par value; 7,500 shares authorized, issued and outstanding at December 31, 2002 and 2001, respectively	7,500	7,500
Additional paid-in capital	4,320	4,320
Accumulated deficit	(339,194)	(146,567)
Accumulated other comprehensive income	—	72
<b>Total shareholders' equity</b>	<b>(327,374)</b>	<b>(134,675)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>€216,979</b>	<b>€215,634</b>

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

6

## H.O.T. NETWORKS GmbH AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Common Stock	Addit.	(Accum.	Accum. Other Comp.
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	Total	€	Shares	Paid-in Capital	Deficit	Income (Loss)					
<b>Balance as of December 31, 1999 (unaudited)</b>	€	—	€	—	€	—					
Issuance of common stock		9,275	7,500	7,500	1,775						
Contributed capital		1,274			1,274						
Comprehensive loss:											
Net loss for the year ended December 31, 2000		(26,033)			(26,033)						
Foreign currency translation		(25)				(25)					
Comprehensive loss		(26,058)									
<b>Balance as of December 31, 2000 (unaudited)</b>		(15,509)	7,500	7,500	3,049	(26,033)					
Contributed capital		1,271			1,271						
Comprehensive income (loss):											
Net loss for the year ended December 31, 2001		(120,534)			(120,534)						
Foreign currency translation		97				97					
Comprehensive loss		(120,437)									
<b>Balance as of December 31, 2001 (unaudited)</b>		(134,675)	7,500	7,500	4,320	(146,567)					
Comprehensive loss:											
Net loss for the year ended December 31, 2002		(192,627)			(192,627)						
Foreign currency translation		(72)				(72)					
Comprehensive loss		(192,699)									
<b>Balance as of December 31, 2002</b>	€	327,374	€	7,500	7,500	€	4,320	€	(339,194)	€	—

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

7

**H.O.T. NETWORKS GmbH AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31,

	2002	2001	2000
		(unaudited)	(unaudited)
		(In '000 Euros)	

Cash flows from operating activities:			
Net Loss	€	(192,627)	€ (120,534) € (26,033)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:			
Depreciation and amortization		9,102	12,278 3,521
Equity in losses in unconsolidated subsidiaries and other		5,587	16,692 —
Gain on sale of fixed assets		(3,206)	— —
Restructuring charges		124,640	3,500 —
Minority interest		3,253	(6,100) (1,384)
Changes in assets and liabilities:			

Accounts and notes receivable	(7,565)	(12,150)	(4,852)
Inventories	754	(7,817)	(1,577)
Accounts payable	(16,483)	7,922	21,643
Accrued liabilities and other current liabilities	(6,210)	10,161	17,236
Other, net	(494)	2,083	(3,579)
<b>Net Cash (Used In) Provided By Operating Activities</b>	<b>(83,249)</b>	<b>(93,965)</b>	<b>4,975</b>
Cash flows from investing activities:			
Acquisitions, net of cash acquired	1,007	(1,019)	(3,636)
Capital expenditures	(2,747)	(70,347)	(33,312)
Proceeds on sale of assets	12,000	—	—
Increase in long-term investments and notes receivable	(4,585)	(150,922)	(38,270)
Other, net	591	(4,664)	(967)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>6,266</b>	<b>(226,952)</b>	<b>(76,185)</b>
Cash flows from financing activities:			
Borrowings	63,864	326,887	60,361
Proceeds from issuance of common stock	—	—	9,275
Contributed capital	—	1,271	1,274
Other, net	1,809	7,322	3,266
<b>Net Cash Provided By Financing Activities</b>	<b>65,673</b>	<b>335,480</b>	<b>74,176</b>
Effect of exchange rate changes on cash	(438)	—	(25)
<b>Net Increase (Decrease) In Cash</b>	<b>(11,748)</b>	<b>14,563</b>	<b>2,941</b>
Cash at beginning of period	17,504	2,941	—
<b>Cash at End of Period</b>	<b>€ 5,756</b>	<b>€ 17,504</b>	<b>€ 2,941</b>

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

## H.O.T. NETWORKS GmbH AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1—DESCRIPTION OF BUSINESS

##### GENERAL

H.O.T. Networks GmbH ("H.O.T. Networks"), a German limited liability company, was founded in February 2000 as a holding company for home order television companies in Belgium, Italy and the United Kingdom (the "Home Shopping Europe Group"). The initial shareholders of H.O.T. Networks were HSN Home Shopping Network GmbH ("HSN GmbH") which owned 46.67% and two individuals, Georg Kofler and Thomas Kirch, both with ownership interests of 26.67%, respectively. In August 2000, H.O.T. Networks acquired a 23.54% interest in H.O.T. Home Order Television Europe GmbH & Co. KG ("H.O.T.



Europe"), a German limited liability company, from SBS Broadcasting S.A. in exchange for a proposed 25% interest in H.O.T Home Shopping Television Belgium S.A. ("H.O.T. Belgium", a subsidiary of H.O.T. Networks). H.O.T. Europe was formed as a vehicle to hold an interest, through a subsidiary, in an Italian company, Home Shopping Europe Broadcasting SpA ("HSEB SpA"), which had been granted a broadcasting license in Italy. HSEB SpA broadcasts a 24-hour interactive teleshopping channel throughout Italy. In January 2001, H.O.T. Networks acquired 100% of EUVIA Media AG & Co. KG, a German limited partnership, as well 100% of EUVIA Media Verwaltungs AG, a German stock corporation acting as a general partner of EUVIA Media AG & Co. KG, (collectively referred to as "EUVIA"). EUVIA, which through certain subsidiaries, operates two businesses, "Neun Live TV" a game show oriented TV channel, and a travel oriented shopping TV channel under the brand name "Sonnenklar". In addition, H.O.T. Networks owns 100% of Home Shopping Europe UK Ltd ("HSE UK"), which was formed in 2001. Collectively these entities make up H.O.T. Networks ("the Company"). During 2001, ProSiebenSat.1 Media AG, ("ProSieben") and Mrs. Christiane zu Salm-Salm entered into the EUVIA partnership and subsequently held equity interests of 48.4% and 3% respectively in EUVIA. In July 2002 HSN GmbH became the sole shareholder of H.O.T. Networks by acquiring the shares of Messrs. Kofler and Kirch. In the fourth quarter of 2002, H.O.T. Europe (which includes the operations of Home Shopping Europe SpA ("HSE SpA") and HSEB SpA) was merged into H.O.T. Networks. During 2002, based on the then current direction of the Company, management restructured various components of Belgium, Italy and the United Kingdom subsidiaries. In December 2002 H.O.T. Networks changed its corporate structure from a stock corporation ("AG") to a limited liability company ("GmbH"). The Company is a wholly owned subsidiary of Home Shopping Network ("HSN"), which in turn is a wholly owned subsidiary of InterActiveCorp. In connection with operating the businesses noted above, H.O.T. Networks has undertaken to fund 100% of the cash requirements and operating losses up to Euro 179 million, with the funding obligations terminating if EUVIA remains profitable for two consecutive fiscal years. Through September 30, 2003, H.O.T. Networks funded EUVIA with approximately Euro 59.1 million. H.O.T. Networks expects that no additional funding will be required prior to EUVIA achieving profitability for two consecutive fiscal years, which is currently expected to be on December 31, 2003. It is the intention of HSN to provide the capital funding (to the extent necessary, and not available from other sources) required to maintain the Company's solvency and to continue its operations as a going concern.

## **NOTE 2—ORGANIZATION**

### **H.O.T. Europe**

During 1999, H.O.T. Europe acquired 63% of HSE SpA for Euro 1.1 million. Under a purchase agreements dated August 21, 2000, H.O.T. Networks acquired a 23.54% interest in H.O.T. Europe in exchange for a proposed 25% interest in H.O.T. Belgium. In December 2000, HSE SpA, acquired a 35% interest in Vallan Italiana Promomarket S.r.l., ("VIP") for the purpose of obtaining full-time TV-access. Effective February 2001, HSE SpA increased its ownership interest in VIP by acquiring an

9

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additional 40% from Internova SpA and Profit SpA. Subsequently, in 2001 H.O.T. Europe increased its ownership interest in HSE SpA to 81.5% by making a capital contribution of approximately Euro 23.1 million. By the end of June 2001, HSE SpA acquired the remaining 25% interest from Videopiu and subsequently renamed VIP to HSEB SpA. HSEB SpA operates a private TV-channel known as "Rete Mia", now operating under the HSE brand. On April 3, 2001, HSN GmbH contributed its 18.5% ownership interest in HSE SpA to H.O.T. Europe for consideration of Euro 5.2 million, bringing H.O.T. Europe's total ownership interest in HSE SpA to 100% until June 2001, at which time Convergenza Belgique S.A. ("Convergenza") acquired a 12.5% interest. Subsequently, in November 2002, an additional 51.5% of HSE SpA was sold to Convergenza thus reducing H.O.T. Europe's interest to 36%. As a result of the transactions, H.O.T. Network's ownership interest in H.O.T. Europe was reduced from 23.54% to 19.18%. In the fourth quarter of 2002, H.O.T. Europe was merged into the Company. Since H.O.T. Europe is considered under common ownership with that of H.O.T. Networks, the results of H.O.T. Europe have been consolidated in the accompanying financial statements since January 2000.

### **EUVIA**

In January 2001, H.O.T. Networks acquired 100% of EUVIA for Euro 57,000. During May 2001, ProSieben contributed Euro 484,000 for 48.4% interest in EUVIA. On June 22, 2001, EUVIA acquired TM3 Fernsehen GmbH & Co. KG, ("TM3"), which was subsequently renamed NEUN LIVE Fernsehen GmbH & Co. KG ("Neun Live"). Neun Live used the related broadcasting license for the implementation of a new business model to develop a new form of transaction financed TV. To help finance the acquisition ProSieben contributed an additional Euro 66.5 million and lent EUVIA Euro 112 million. In addition, on September 28, 2001, Mrs. Christiane zu Salm-Salm, acquired a 3% interest in EUVIA for Euro 30,000 and contributed an additional Euro 270,000 to EUVIA. As a result, H.O.T. Networks' interest in EUVIA was reduced to 48.6%. In connection with the investments by ProSieben and Mrs. zu Salm-Salm, the total capital in EUVIA was increased to Euro 1 million. In September 2001, the Company entered into a voting commitment agreement with Mrs. zu Salm-Salm so that the Company controls 51.6% of the votes but because ProSieben had some participating rights the Company did not consolidate EUVIA. On July 1, 2002, ProSieben lost these rights, which enabled the Company to consolidate EUVIA. Prior to July 1, 2002 the results of EUVIA were accounted for under the equity method of accounting.

## **NOTE 3—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Consolidation**

The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries and voting-controlled subsidiaries. Significant intercompany transactions and accounts have been eliminated.

Investments in which the Company owns a 20%, but not in excess of 50%, interest are accounted for using the equity method. HSEB SpA was accounted for using the equity method during 2000 and EUVIA was accounted for using the equity method in the last six months of 2001 and the first six months of 2002. Commencing February 2001, and July 2002 the results of HSEB SpA and EUVIA, respectively, have been consolidated into the results of the Company.

10

### **Revenue Recognition**

Service revenues reflect the information technology ("IT") service activities, which consist of management of hardware and software systems (including sales/order entry system, inventory system and accounting system), performed by H.O.T. Networks. Revenues are recognized as the services are performed.

Sonnenklar, which operates a travel oriented shopping channel, receives a commission of 10 - 20% of travel net bookings generated. The commission is earned and the Company recognizes service revenue when the travel begins. If the viewer cancels before the travel occurs, but after signing up for the travel, the Company receives a commission on the amount retained by the travel provider. If the customer does not pay the travel provider or the travel provider has to cancel the travel, the Company receives no commission. In the case of a cancellation, to which the Company has a claim, the travel providers credit the Company with the cancellation retainer.

Neun Live, which operates a TV game show channel, records revenue on a per call basis. The game shows are designed to generate calls through an interactive voice response system. Neun Live is paid a specific amount per call for generating these calls. The service revenue is recorded based on the number of calls and reconciled as the amounts are received from the vendor.

H.O.T. Europe's revenues are primarily generated through the operations of HSE SpA, which consist of merchandise sales. Revenues are generated through sales of consumer goods by means of live, customer-interactive electronic retail sales programs. Revenues are recognized upon shipment.

### **Merchandise Inventories, Net**

Merchandise inventories, which consist of finished goods, 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 Euro 0.3 million at December 31, 2001.

### **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.

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 5 Years
Buildings	20 to 39 Years
Leasehold improvements	3 to 10 Years
Furniture and other equipment	3 to 10 Years

11

### **Long-Lived Assets**

The Company's accounting policy regarding the assessment of the recoverability of the carrying value of long-lived assets, including 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 "New Accounting Pronouncements" and "Restructuring Charges" for further information related to impairing or disposals of long-lived assets.

### **Advertising**

Advertising costs are principally expensed in the period incurred. Advertising expense for the years ended December 31, 2002, 2001 and 2000 was Euro 0.8 million, Euro 4.4 million and Euro 0, 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.

### **Minority Interest**

Minority interest primarily represents ProSieben and Mrs. Christiane zu Salm-Salm's ownership interest in EUVIA from July 1, 2002 through December 31, 2002 and Internova SpA and Profit SpA's ownership interest in HSEB SpA from December 2000 through January 31, 2001. In addition, at December 31, 2002 the Company has classified redeemable equity interests issued by EUVIA to ProSieben in the amount of Euro 118.5 million, including accrued interest, as minority interest. The redeemable equity interests are due in 2006, but EUVIA has the right to extend maturity to 2016 based on meeting certain financial covenants. The amount is only due to the holder under German law to the extent sufficient funds in excess of fixed capital at EUVIA are available. Interest expense recorded in the statement of operations related to these redeemable equity interests for 2002, 2001 and 2000 was Euro 2.0 million, Euro 0.4 million and Euro 0, respectively. During 2002 and 2001 an additional Euro 4.1 million of interest expense was recorded as part of equity in losses in unconsolidated subsidiaries and other.

### **Foreign Currency Translation**

The financial position and operating results of all foreign operations are consolidated using the local currency (Euro) as the functional currency. The assets and liabilities of the UK subsidiary have been translated from the UK pound to the Euro at the rates of exchange on the balance sheet date, which amounted to 1.64285 at December 31, 2001. As of December 31, 2002 there were no assets or liabilities existing for the UK subsidiary, and all operations existed for five months through the period ended May 31, 2002. The revenues and expenses of the UK have been translated from the UK pound to the Euro at the average rates of exchange during 2002, 2001 and 2000, which amounted to 1.60996,

12

1.64084 and 1.64074, respectively. Resulting translation gains or losses are included as a component of accumulated other comprehensive income (loss) in shareholders' equity. Since the Company's financial statements are consolidated into the operations of Home Shopping Network, a U.S. entity, these financial statements are translated into U.S. dollars. At December 31, 2002 and 2001 the Euro as compared to the U.S. dollar is valued at 1.04830 and 0.88600, respectively. The average rate for the Euro compared to the U.S. dollar during 2002, 2001 and 2000, respectively, are 0.94540, 0.89661 and 0.92504.

### **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.

### **New Accounting Pronouncements**

#### ***Accounting for Goodwill and Other Intangible Assets***

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". In connection with the adoption of this standard, the Company has not amortized any goodwill or indefinite-lived intangible assets during 2002. Prior to the adoption, all intangible assets were amortized over their estimated periods to be benefited, generally on a straight-line basis. Therefore, the results of operations for 2001 and 2000 reflect the amortization of goodwill and indefinite-lived intangible assets, while the results of operations for 2002 do not reflect such amortization (see Note 4—Goodwill and Other Intangible Assets for a pro forma disclosure depicting the Company's results of operations during 2001 and 2000 after applying the non-amortization provisions of SFAS No. 142). Goodwill amortization recorded in operations for the years ended December 31, 2001 and 2000 was Euro 2.6 million and Euro 0.6 million, respectively. In connection with the implementation of SFAS No. 142, the Company was required to assess goodwill and indefinite-lived intangible assets for impairment. An assessment was performed in the second quarter of 2002 and no impairment existed.

#### ***Impairment or Disposal of Long-Lived Assets***

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", during the three months ended March 31, 2002. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that opinion). SFAS No. 144 established a single accounting model, based on the framework established in SFAS No. 121 for long-lived assets to be disposed of for sale. It retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of

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long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale.

#### ***Accounting for Costs Associated with Exit or Disposal Activities***

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have material impact on its operating results or financial position.

#### ***Consolidation of Variable Interest Entities***

In January 2003, the FASB issued Interpretation 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 will significantly change current practice in the accounting for and disclosure of variable interest entities. Under FIN 46, a business enterprise that has a controlling financial interest in a variable interest entity would include the variable interest entity's assets, liabilities and results of operations in their consolidated financial statements. This Interpretation is different from the general current practice of consolidating only those entities in which an enterprise has a controlling voting interest. The requirements of FIN 46 are effective for financial statements of interim or annual periods beginning after December 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003 and immediately for all variable interest entities created after January 31, 2003. The Company does not believe that the application of FIN 46 will not have a material effect on its consolidated financial position or results of operations.

#### ***Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity***

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This pronouncement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003. The adoption of SFAS 150 is not expected to have a material effect on the Company's consolidated financial position or results of operations.

#### **Certain Risks, Concentrations and Allowance for Doubtful Accounts**

The Company's business is subject to certain risks and concentrations including dependence on relationships with travel suppliers, specifically various travel agencies, dependence on TV contracts for broadcast rights and exposure to risks associated with possible government intervention. Neun Live is dependent to some extent on its relationship with AS Interactive for its services in providing the IT system behind the call taking, analysis and taping. EUVIA travel is dependent on various travel agencies, which pay the commission for the sale of travel packages on air, specifically one of the larger agencies Big X-tra Touristik GmbH.

The Company performs ongoing credit evaluations of its customers' financial condition. These evaluations require significant judgment and are based on a variety of factors including, but not limited to, current economic trends, historical payment and bad write-off experience.

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of its customers to make required payments. When the Company becomes aware that a specific customer is unable to meet its financial obligations, the Company records a specific allowance to reflect the level of credit risk in the customer's outstanding receivable balance. The Company records bad debt expenses as general and administrative expenses.

The Company is not able to predict changes in the financial stability of its customers. Any material change in the financial status of any one or group of customers could have a material adverse effect on the Company's results of operations and financial condition. As noted above, the Company is dependent to some extent on its relationship with AS Interactive. At December 31, 2002 AS Interactive accounted for 92% of the Company's gross accounts receivable and 61% of the Company's revenues.

#### NOTE 4—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are comprised of goodwill of Euro 135.5 million and intangible assets with indefinite lives of Euro 49 million as of December 31, 2002. Goodwill amortization recorded in operations in the twelve months ended December 31, 2001 was Euro 2.6 million. The increase in goodwill is due to the consolidation of EUVIA into H.O.T. Networks beginning in July 2002.

The balance of goodwill and intangible assets is as follows (in '000 Euro):

	December 31,	
	2002	2001
		(unaudited)
Goodwill	€ 135,483	€ 60,019
Intangible assets with indefinite lives	49,002	312
Intangible assets with definite lives	390	—
Total	€ 184,875	€ 60,331

Intangibles with indefinite lives relate principally to broadcast licenses acquired in the acquisition of Neun Live. Intangibles with definite lives relate to customer backlog. The average amortization period for customer backlog is six months and therefore all the definite lived intangible assets will be fully amortized during 2003.

The following table adjusts the Company's reported net loss to exclude amortization expense related to goodwill and other intangible assets with indefinite lives as if Statement of Financial

15

Accounting Standards No. 142, "Accounting for Goodwill and Other Intangibles Assets" was effective January 1, 2000:

	Year Ended December 31,	
	2001	2000
	(unaudited)	(unaudited)
	(in '000 Euros)	
<b>Net loss</b>		
Reported Net loss	€ (120,534)	€ (26,033)
Add: goodwill amortization	2,645	598
Net loss—as adjusted	€ (117,889)	€ (25,435)

The following table presents the balance of goodwill by acquisition, including the changes in the carrying amount of goodwill for the year ended December 31, 2002 (in '000 Euros):

	Balance as of January 1, 2002	Additions	(Deductions)	Balance as of December 31, 2002
H.O.T. Belgium	€ 3,634	€ —	€ (3,634)	€ —
H.O.T.	56,385	—	(56,385)	—

Europe					
EUVIA	—		135,483	—	135,483
<b>Goodwill</b>	€	60,019	€	135,483	€
				(60,019)	€
					135,483

EUVIA goodwill relates to the acquisition of Neun Live in 2001, however since the Company only started to consolidate EUVIA commencing July 1, 2002, the amount has been shown as additions in 2002. Deductions primarily represent the write-off of H.O.T. Europe's goodwill relating to its investment in HSEB SpA. For further discussion on this charge refer to Note 8, Restructuring Charges.

#### NOTE 5—LONG-TERM OBLIGATIONS

At December 31, 2001, borrowings consist mainly of short-term loans from ING BHF Bank AG with an interest rate of 4.42%. In connection with the 2002 transaction whereby HSN GmbH acquired the remaining 53.34% of H.O.T. Networks from Messrs. Kofler and Kirch, these loans were satisfied.

At December 31, 2001, the Company leased certain IT equipment under capital leases with interest rates at 6.5%. Total fixed assets under capital lease were Euro 5.1 million with accumulated depreciation of Euro 2.6 million. Depreciation expense on these fixed assets approximate Euro 1.5 million and Euro 1.1 million for 2001 and 2000, respectively. During May 2002, the Company sold the IT equipment and assigned the remaining lease obligations to Home Shopping Europe AG. Depreciation expense for these assets during 2002 was Euro 315,000.

16

Long-term obligations consist of the following:

	December 31,	
	2002	2001
		(unaudited)
	(In '000 Euros)	
Borrowings	€ —	€ 14,625
Capital Leases.	—	1,210
Other	38	—
Total obligations	38	15,835
Less current maturities	—	15,178
Long-term obligations, net of current maturities	€ 38	€ 657

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

Years Ending December 31,	(In '000 Euros)
2003	—
2004	€ 38
2005	—
2006	—
2007	—
Thereafter	—
	€38

#### NOTE 6—INCOME TAXES

A reconciliation of total income tax expense to the amounts computed by applying the statutory German federal corporate income tax rate to earnings from continuing operations before income taxes and minority interest is shown below. Effective January 1, 2001, the German federal corporate income was reduced from 42.2% to 26.375%.

The provisions for income taxes consisted of the following:

	Years Ended December 31,		
	2002	2001	2000
		(unaudited)	(unaudited)
	(In '000 Euros)		
Statutory Income tax	€ (49,946)	€ (33,409)	€ (11,570)
Municipal taxes, net of federal benefit	(3,188)	(6,320)	(1,056)

Foreign income, taxed at a different rate	38,604	(7,722)	771
Non-deductible losses on investments	17,917	—	—
Valuation allowance	(3,589)	47,416	11,855
Other, net	206	—	—
<b>Income tax expense (benefit)</b>	<b>€ 4</b>	<b>€ (35)</b>	<b>€ —</b>

17

The components of income tax expense are as follows:

	Years Ended December 31,		
	2002	2001	2000
		(unaudited)	(unaudited)
	(In '000 Euros)		
<b>Current income tax expense (benefit):</b>			
Germany federal	€ —	€ —	€ —
Municipal	—	—	—
Foreign	4	(35)	—
<b>Total current income tax expense (benefit)</b>	<b>€ 4</b>	<b>€ (35)</b>	<b>€ —</b>
<b>Deferred income tax (benefit) expense:</b>			
Germany	—	—	—
<b>Total income tax expense (benefit)</b>	<b>€ 4</b>	<b>€ (35)</b>	<b>€ —</b>

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2002 and 2001 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,	
	2002	2001
		(unaudited)
	(In '000 Euros)	
<b>Current deferred tax assets (liabilities):</b>		
Other, net	€ —	€ 68
<b>Net current deferred tax assets</b>	<b>€ —</b>	<b>€ 68</b>
<b>Non-current deferred tax assets (liabilities):</b>		
Other, net	€ 7,223	€ 1,908
Net operating loss carryforwards	48,460	55,541
Less valuation allowance	(55,683)	(59,271)
<b>Net non-current deferred tax liabilities</b>	<b>€ —</b>	<b>€ (1,822)</b>

At December 31, 2002 the Company has net operating loss carryforwards of approximately Euro 193 million which can be carried forward indefinitely. The valuation allowance of Euro 55.7 million relates at December 31, 2002 primarily to net operating loss carryforwards that the Company does not expect to utilize.

#### NOTE 7—COMMITMENTS AND CONTINGENCIES

The Company leases office space, automobiles and computer equipment used in connection with its operations under various operating leases and contracts. This office space has sublease rental income in the amount of Euro 125,000 annually between October 2002 and September 2005, which has been reflected in the table below and, as such, the future minimum payments below are shown net of annual sublease income.

18

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

Years Ending December 31,	(In '000 Euros)	
2003	€	454
2004		405
2005		431
2006		525
2007		525
Thereafter		1,443
<b>Total</b>	<b>€</b>	<b>3,783</b>

Expenses charged to operations were Euro 2.2 million, Euro 2.6 million and Euro 1.1 million for the years ended December 31, 2002, 2001 and 2000, respectively.

#### NOTE 8—RESTRUCTURING CHARGES

The Company holds 100% of the shares in H.O.T. Belgium and HSE UK. HSE UK and various subsidiaries within H.O.T. Belgium became insolvent in 2002 as a result of the progressive deterioration of their financial position. The investments in these entities, which amounted to Euro 25 million and Euro 30.4 million, respectively, were therefore written off in 2002.

Write-offs of intangible assets relating to standard licenses and software that are no longer used and could not be transferred to companies within the Home Shopping Europe Group amounted to Euro 698,000 and Euro 3.5 million, respectively, for the years ended December 31, 2002 and 2001.

Due to the restructuring noted above the Company has vacated certain rented office facilities in Munich. As a result, the Company has recorded a charge of Euro 1.3 million associated with its remaining lease obligation. In addition, the Company has written off the net book value of its leasehold improvements amounting to Euro 1 million at December 31, 2002.

During 2002, management of the Company determined that they were no longer going to fund the operations of HSE SpA through H.O.T. Europe and took a write-down charge of Euro 63.6 million. Included in this charge is approximately Euro 49 million related to goodwill that was recorded by HSE SpA in its acquisition of HSEB SpA.

In 2002, H.O.T. Networks recorded a restructuring charge of Euro 2.6 million related to employee termination costs, which included the termination of the CEO. The number of employees at H.O.T. Networks decreased from 61 at the end of 2001 to 2 at the end of 2002.

The Company does not have any accruals remaining as of December 31, 2002 related to the restructuring charges.

#### NOTE 9—LITIGATION

In the ordinary course of business, the Company is a party to various lawsuits. In the opinion of management, the ultimate outcome of these lawsuits should not have a material impact on the liquidity, results of operations, or financial condition of the Company.

#### NOTE 10—STATEMENTS OF CASH FLOWS

##### Supplemental Disclosure of Cash Flow Information:

	Years Ended December 31,		
	2002	2001	2000
		(unaudited)	(unaudited)
	(In '000 Euros)		
Cash paid during the period for:			
Interest	€ 453	€ 1,280	€ 502
Income tax payments	€ 18	€ 7	€ —

#### NOTE 11—RELATED PARTY TRANSACTIONS

As of December 31, 2002, the Company has an unsecured loan liability to its shareholder HSN GmbH, in the amount of Euro 323.9 million in principal and Euro 28.8 million in accrued interest. The liability arises primarily from two loan agreements of November 8, 2000 and July 27, 2001 as well as from contractual loan assignments by the former shareholders of H.O.T. Networks, Thomas Kirch and Georg Kofler. The loans have a term of three-years. The interest payable on

shareholder loans currently stands at 6.3% and at the end of the three-year term, is subject to review. Such review is expected to occur in the fourth quarter of 2003. Several amendments were added to both loan agreements with respect to specific contractual components as well as the borrowing arrangement. Both loan agreements include letters of subordination. Interest expense related to these notes recorded in the statement of operations for 2002, 2001 and 2000 was Euro 19 million, Euro 9.7 million and Euro 0.1 million, respectively.

At December 31, 2002, the balance sheet includes a 6.80% interest-bearing receivable in the amount of Euro 1.7 million, including accrued interest, from Mrs. Christiane zu Salm-Salm, a shareholder of EUVIA. The loan is repayable to the Company at the end of the term on December 31, 2007 but may be called in either fully or partly by the Company if certain conditions are fulfilled by Mrs. Salm-Salm at the end of each month with a notice period of one month. The loan is secured by Mrs. Salm-Salm's 3% interest in EUVIA. At December 31, 2002 the outstanding receivable is classified within other assets.

During September 2002, Home Shopping Europe, AG ("HSE DE"), a subsidiary of HSN, assigned receivables due from H.O.T. Europe GmbH and HSE SpA to the Company for Euro 1.9 million. Subsequently these receivables were written off and at December 31, 2002 there was no outstanding balance.

During May 2002, HSE DE purchased from the Company software, hardware, furniture and fixtures and trademarks for a price of Euro 12.0 million, which resulted in a gain of Euro 3.2 million.

During September 2001, the Company sold to HSE DE several software systems and hardware used in the areas of e-commerce and customer relation management. The revenues generated amounted to Euro 1.5 million, which has been recorded in the 2001 statement of operations.

In a sublease agreement in October 2000 between the Company and HSE DE (both owned by HSN GmbH), the Company rented office and residential space from HSE DE. The terms and conditions of the sublease agreement are the same as in the underlying contract between Home

20

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Shopping Europe AG and the landlord. The lease term is ten years with a monthly rent of Euro 49,000. In 2002, the Company paid Euro 190,000 to the landlord to be released from the rental agreement for part of the office premises. Rent expense charged under this agreement amounted to Euro 886,000, Euro 797,000 and Euro 422,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

In May 2000, the Company acquired from HSE DE fixed assets necessary to perform IT services for approximately Euro 7.9 million. At the time of the contract the Company hired various employees specializing in IT services from HSE DE.

In a service agreement dated May 26, 2000, the Company provided to HSE DE services in the areas of data processing, logistics, call center, e-commerce and IT. Based on this contract the Company invoiced Euro 2.7 million in 2002, Euro 5.8 million in 2001 and Euro 3.5 million in 2000 to HSE DE. These amounts have been recorded as revenues in the statement of operations for the respective years.

In 2000 and 2001, Georg Kofler, shareholder of H.O.T. Networks at that time, was paid an annual compensation of Euro 0.8 million by InterActiveCorp, the parent company of HSN, and Euro 0.5 million by Leo and Thomas Kirch (shareholders of H.O.T. Networks) under an agreement for Georg Kofler to perform the duties of CEO for H.O.T. Networks and the joint development and establishment of teleshopping, e-commerce and other media activities in Europe. This agreement originally had a term of 5 years, but was cancelled in January 2002. All payments have been treated as contributed capital in the statement of shareholders' equity for the respective years.

21

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## QuickLinks

[CONTENTS](#)

[REPORT OF INDEPENDENT AUDITORS](#)

[H.O.T. NETWORKS GmbH AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS](#)

[H.O.T. NETWORKS GmbH AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS](#)

[ASSETS](#)

[H.O.T. NETWORKS GmbH AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS LIABILITIES AND SHAREHOLDERS' EQUITY](#)

[H.O.T. NETWORKS GmbH AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY](#)

[H.O.T. NETWORKS GmbH AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS](#)

[H.O.T. NETWORKS GmbH AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS](#)