

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

USA NETWORKS, INC.

(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):

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

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 /X/ 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. /X/

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

Table with 2 columns: Description of stock and Number of shares. Rows include Common Stock, Class B Common Stock, Total, Common Stock issuable upon exchange of outstanding exchangeable subsidiary equity, and Total outstanding Common Stock, assuming full exchange of Class B Common Stock and exchangeable subsidiary equity.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of February 15, 2002 was \$8,110,122,614. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant are assumed to be affiliates of the Registrant.

Assuming the exchange, as of February 15, 2002, of all equity securities of subsidiaries of the Registrant exchangeable for Common Stock of the Registrant, the Registrant would have outstanding 764,819,772 shares of Common Stock with an aggregate market value of \$23,135,798,101.

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

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PART I

ITEM 1. BUSINESS

GENERAL

On December 17, 2001, USA Networks, Inc. ("USA" or the "Company") and Vivendi Universal, S.A. ("Vivendi") announced a transaction (the "Vivendi Transaction") in which USA's Entertainment Group, consisting of USA Cable, Studios USA, and USA Films, would be contributed to Vivendi Universal Entertainment LLLP, a new joint venture to be controlled by Vivendi ("VUE").

Upon closing of the Vivendi Transaction, USA will be renamed USA Interactive and will be focused on integrating interactive assets across multiple lines of business. We believe USA Interactive will be a leader in integrated interactivity, including ticketing, online travel, electronic retailing, teleservices and other interactive commerce services. USA Interactive will consist of the divisions and subsidiaries in USA's Interactive Group. These divisions and subsidiaries include Home Shopping Network, including HSN International and HSN.com; Ticketmaster (Nasdaq: TMCS), which operates Ticketmaster, Ticketmaster.com, Citysearch and Match.com; Expedia, Inc. (Nasdaq: EXPE); Hotel Reservations Network, Inc. (Nasdaq: ROOM); Precision Response Corporation; Electronic Commerce Solutions; and Styleclick, Inc.

USA organizes the various businesses in its Interactive Group into "Operating Businesses" and "Emerging Businesses" as follows:

OPERATING BUSINESSES

- HSN--U.S., consisting primarily of the HSN and America's Store television networks and HSN.com.
- TICKETING OPERATIONS, consisting primarily of Ticketmaster and Ticketmaster.com, which provide offline and online automated ticketing services.
- EXPEDIA, a leading provider of travel planning services.
- HOTEL RESERVATIONS NETWORK, a leading consolidator of hotel rooms for resale in the consumer market.
- PRECISION RESPONSE CORPORATION, a leader in outsourced consumer care for

both large corporations and high-growth Internet-focused companies.

- MATCH.COM, a leading online personals business.

#### EMERGING BUSINESSES

- HSN--INTERNATIONAL AND OTHER, consisting primarily of HSN's international and Spanish-language electronic retailing operations.
- CITYSEARCH AND RELATED, which operates a network of local city guide sites that offer primarily original local content for major cities in the U.S. and abroad, as well as practical transactional tools to get things done.
- USA ELECTRONIC COMMERCE SOLUTIONS, the Company's electronic commerce solutions business.
- STYLECLICK, a provider of e-commerce services and technologies.

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#### CORPORATE STRUCTURE, EQUITY OWNERSHIP AND VOTING CONTROL

**CORPORATE STRUCTURE.** A number of USA's businesses are currently held by two non-wholly owned subsidiaries, Home Shopping Network, Inc. ("Holdco") and USANi LLC. USA maintains control and management of Holdco and USANi LLC, and manages the businesses held by them, in substantially the same manner as they would be if they were wholly owned subsidiaries. The other principal owners of these subsidiaries are Liberty Media Corporation ("Liberty") and Vivendi, through Universal Studios, Inc. ("Universal"). USA has the contractual right to require the exchange of the Holdco shares held by Liberty for shares of USA. Following such exchange and after giving effect to the Vivendi Transaction, Holdco and USANi LLC will become wholly owned, thereby simplifying USA's corporate structure.

**EQUITY OWNERSHIP.** As of February 15, 2002, Liberty, through companies owned by Liberty and Mr. Diller, owned 7.3% of USA's outstanding common stock and 78.7% of USA's outstanding Class B common stock and Vivendi (through Universal) owned approximately 5.3% of USA's outstanding common stock and 21.3% of USA's Class B common stock. Pro forma for the Vivendi Transaction and after giving effect to the exchange of all of Liberty's Holdco shares, Liberty, through companies owned by Liberty and Mr. Diller, would own approximately 2.0% of USA's outstanding common stock and 78.7% of USA's outstanding Class B common stock, Vivendi (through subsidiaries) would own approximately 12.4% of USA's outstanding common stock and 21.3% of USA's outstanding Class B common stock and the public shareholders, including Mr. Diller and other USA officers and directors, would own approximately 85.6% of USA's common stock. Following the Vivendi Transaction, Vivendi will own 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) and will be required to hold 56.6 million USA shares to satisfy its put and call obligations relating to the Class B preferred interest in VUE that will be issued to USA in the Vivendi Transaction described below. See "Corporate History--Certain Entertainment Group Transactions--Vivendi Transaction." The terms of the Class B preferred interest provide that it is puttable and callable commencing on the 20th anniversary of the completion of the Vivendi Transaction at its then accreted face value for up to 56.6 million USA common and Class B shares held by Vivendi. If USA's share price exceeds \$40.82 per share at the time of the put or call, fewer than 56.6 million shares would be cancelled. At the election of Vivendi, USA common shares (but not the USA Class B common shares) to be received by USA pursuant to the put or call can be substituted with cash equal to the market value of those shares.

**VOTING CONTROL.** Mr. Diller, subject to the stockholders agreement and subject to veto rights of Universal and Liberty over fundamental changes, is effectively able to control the outcome of nearly all matters submitted to a vote of USA's stockholders. Upon closing of the Vivendi Transaction, Vivendi's veto rights over fundamental changes will be eliminated and Liberty's veto rights over fundamental matters will be significantly limited. As of February 15, 2002, Mr. Diller, through companies owned by Liberty and Mr. Diller, his own holdings and the stockholders agreement dated as of October 19, 1997, among Mr. Diller, Universal, Liberty, USA and Seagram, controls 67.8% of the outstanding total voting power of USA. Pro forma for the Vivendi Transaction and after giving effect to the exchange of all of Liberty's Holdco shares, and subject to an amended and restated stockholders agreement, Mr. Diller will control 69.4% of the outstanding total voting power of USA.

#### CORPORATE HISTORY

USA was incorporated in July 1986 in Delaware under the name Silver King Broadcasting Company, Inc. as a subsidiary of Home Shopping Network, Inc. ("Holdco"). On December 28, 1992, Holdco distributed the capital stock of USA to its stockholders.

In December 1996, USA completed mergers with Savoy Pictures Entertainment, Inc. ("Savoy") and Holdco, and Savoy and Holdco became subsidiaries of USA. At the same time as the mergers, USA

changed its name from Silver King Broadcasting Company, Inc. to HSN, Inc. In February 1998, as part of the Universal Transaction described below, the Company changed its name to USA Networks, Inc.

#### CERTAIN INTERACTIVE GROUP TRANSACTIONS

##### TICKETMASTER TRANSACTIONS

On July 17, 1997, USA acquired a controlling interest in Ticketmaster Group, Inc. ("Ticketmaster Group") from Mr. Paul G. Allen in exchange for shares of USA's common stock. On June 24, 1998, USA acquired the remaining Ticketmaster Group common equity in a tax-free stock-for-stock merger.

On September 28, 1998, Citysearch, Inc. merged with Ticketmaster Online (now known as Ticketmaster.com), then a wholly owned subsidiary of Ticketmaster Corporation, to form Ticketmaster Online-Citysearch, Inc. ("Ticketmaster Online-Citysearch"). Following the merger, Ticketmaster Online-Citysearch was a majority-owned subsidiary of Ticketmaster Corporation. Shares of Ticketmaster Online-Citysearch's Class B common stock were sold to the public in an initial public offering that was completed on December 8, 1998.

On November 21, 2000, USA announced it had entered into an agreement with Ticketmaster Online-Citysearch to combine Ticketmaster Corporation, a wholly-owned subsidiary of USA, with Ticketmaster Online-Citysearch. The transaction closed January 31, 2001. The combined company was renamed "Ticketmaster." Under the terms of the transaction, USA contributed Ticketmaster Corporation to Ticketmaster Online-Citysearch and received 52 million shares of Ticketmaster Online-Citysearch Class B common stock. The Ticketmaster Class B common stock is quoted on the Nasdaq Stock Market under the symbol "TMCS." As of December 31, 2001, USA beneficially owned 67.6% of the outstanding Ticketmaster common stock, representing 91.7% of the total voting power of Ticketmaster's outstanding common stock.

##### EXPEDIA 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. Immediately following the merger, USA owned all of the outstanding shares of Expedia Class B common stock, representing approximately 64.2% of Expedia's then outstanding shares, and 94.9% of the voting interest in Expedia. On February 20, 2002, USA acquired 936,815 shares of Expedia Class A common stock, increasing USA's ownership to approximately 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 per share. Expedia continues to be traded on Nasdaq under the symbol "EXPE," the USA cumulative preferred stock trades over the counter 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 elected to exchange all of its Expedia common stock (representing approximately 63% of Expedia's 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.

##### HOTEL RESERVATIONS NETWORK TRANSACTION

On May 10, 1999, the Company completed the acquisition of substantially all of the assets and the assumption of substantially all of the liabilities of two entities which operate Hotel Reservations

Network, a leading consolidator of hotel rooms and other lodging accommodations for resale in the consumer market. On March 1, 2000, Hotel Reservations Network completed an initial public offering. As of December 31, 2001, USA beneficially owned approximately 68.3% of the outstanding Hotel Reservations Network common stock, representing 97.0% of the total voting power of Hotel Reservations Network's outstanding common stock. Hotel Reservations Network's Class A common stock is quoted on the Nasdaq Stock Market under the symbol "ROOM."

With the recent closing of USA's acquisition of a controlling interest in Expedia, HRN and Expedia are now under the common control of USA.

##### PRECISION RESPONSE CORPORATION TRANSACTION

On April 5, 2000, USA completed its acquisition of Precision Response Corporation ("PRC"), a leading provider of third-party consumer care services, in a tax-free merger transaction. In accordance with the terms of the merger agreement, USA issued 24.3 million shares of USA common stock in exchange for

all outstanding equity of PRC.

#### STYLECLICK TRANSACTION

On July 27, 2000, USA and Styleclick.com Inc., an enabler of e-commerce for manufacturers and retailers, completed the combination of USA's Internet Shopping Network ("ISN") and Styleclick.com Inc. The new company, which is named Styleclick, Inc. ("Styleclick"), owns and operates the combined properties of Styleclick.com Inc. and ISN. As of December 31, 2001, USA beneficially owned 100% of the outstanding Styleclick Class B common stock, representing 72% of the total common stock of Styleclick and 96% of the total voting power of Styleclick outstanding common stock. On January 25, 2002, Styleclick was delisted from NASDAQ and currently trades over the counter. It continues to incur significant losses that raise substantial doubts about its ability to continue as a going concern.

#### UNIVISION TRANSACTION

On December 7, 2000, USA and Univision Communications Inc. ("Univision") announced that Univision would acquire, for \$1.1 billion in cash, all of the capital stock of certain USA Broadcasting subsidiaries that own thirteen full-power television stations and minority interests in four additional full-power stations. The acquisition closed in August 2001. \$510.4 million of the proceeds were collected in fiscal year 2001 and \$589.6 million in January 2002. Most of these stations aired HSN; as of January 2002, HSN has cable carriage in these markets, including the carriage of two of the minority interest stations through the must-carry rules of the Federal Communications Commission.

#### CERTAIN ENTERTAINMENT GROUP TRANSACTIONS

##### UNIVERSAL TRANSACTION

On February 12, 1998, USA completed the Universal transaction, in which USA acquired USA Networks, a New York partnership (which consisted of USA Network and Sci Fi Channel cable television networks), and the domestic television production and distribution business ("Studios USA") of Universal from Universal. USA paid Universal approximately \$1.6 billion in cash (\$300 million of which was deferred with interest) and an effective 45.8% interest in USA through shares of USA common stock, USA Class B common stock and shares of USANi LLC, a Delaware limited liability company. The USANi LLC shares, exchangeable for shares of USA's common stock and Class B common stock on a one-for-one basis, are among the shares being cancelled in connection with the Vivendi Transaction described below. Universal is controlled by Vivendi as a result of the combination of Vivendi S.A., The Seagram Company Ltd. ("Seagram") and Canal Plus completed in December 2000. As part of the Universal transaction, USA changed its name to USA Networks, Inc.

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##### OCTOBER FILMS/PFE TRANSACTION

On May 28, 1999, the Company acquired October Films, Inc., which was 50% owned by Universal, and the domestic film distribution and development business previously operated by Polygram Filmed Entertainment, Inc. ("PFE") and PFE's domestic video and specialty video businesses from Universal.

##### VIVENDI TRANSACTION

On December 17, 2001, USA announced the Vivendi Transaction, pursuant to which USA would contribute USA's Entertainment Group to VUE, a joint venture with Vivendi, which joint venture would also hold the film, television and theme park businesses of Universal, a subsidiary of Vivendi. Upon consummation of the Vivendi Transaction, the joint venture will be controlled by Vivendi and its subsidiaries, with the common interests owned 93.06% by Vivendi and its subsidiaries, 5.44% by USA and its subsidiaries and 1.5% by Mr. Diller.

In connection with the Vivendi Transaction, USA and its subsidiaries will receive the following at the closing of the transactions: (i) approximately \$1.62 billion in cash, debt-financed by the joint venture, subject to tax-deferred treatment for a 15-year period; (ii) a \$750 million face value Class A preferred interest in the joint venture, 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 the joint venture, 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 43.2 million shares of USA common stock and 13.4 million shares of USA Class B common stock (for a total of 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 (as described above under "Corporate Structure, Equity Ownership and Voting Control--Equity Ownership"); (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) cancellation of all of Vivendi's USANi LLC interests currently exchangeable into USA common shares, including USANi LLC interests obtained from

Liberty in a related transaction (see immediately below).

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

In addition, USA will issue to Universal ten-year warrants to acquire shares of USA common stock as follows: 24,187,094 shares at \$27.50 per share; 24,187,094 shares at \$32.50 per share; and 12,093,547 shares at \$37.50 per share. Barry Diller, USA's chairman and chief executive officer, will receive a common interest in VUE with a 1.5% profit sharing percentage in return for his agreeing to specified non-competition provisions and agreeing to serve as chairman and chief executive officer of the joint venture. USA and Mr. Diller have agreed that they will not compete with Vivendi's television and filmed entertainment businesses (including the joint venture) for a minimum of 18 months. In February 2002, Mr. Diller assigned to three executive officers of USA the right to receive economic interests in a portion of the common interests in VUE that Mr. Diller will receive upon closing of the Vivendi Transaction.

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#### FORWARD LOOKING STATEMENTS

THIS REPORT CONTAINS "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE SECURITIES LAWS. WE HAVE BASED THESE FORWARD-LOOKING STATEMENTS ON OUR CURRENT EXPECTATIONS AND PROJECTIONS ABOUT FUTURE EVENTS, BASED ON THE INFORMATION CURRENTLY AVAILABLE TO US. SUCH FORWARD-LOOKING STATEMENTS ARE PRINCIPALLY CONTAINED IN THE SECTIONS "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND "BUSINESS." THE FORWARD-LOOKING STATEMENTS INCLUDE, AMONG OTHER THINGS, STATEMENTS RELATING TO OUR ANTICIPATED FINANCIAL PERFORMANCE, BUSINESS PROSPECTS, NEW DEVELOPMENTS, NEW MERCHANDISING STRATEGIES AND SIMILAR MATTERS.

THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS, UNCERTAINTIES AND ASSUMPTIONS, THAT MAY AFFECT THE OPERATIONS, PERFORMANCE, DEVELOPMENT AND RESULTS OF OUR BUSINESS AND INCLUDE, BUT ARE NOT LIMITED TO, THE FOLLOWING:

- MATERIAL ADVERSE CHANGES IN ECONOMIC CONDITIONS GENERALLY OR IN OUR MARKETS;
- FUTURE REGULATORY AND LEGISLATIVE ACTIONS AND CONDITIONS IN OUR OPERATING AREAS;
- COMPETITION FROM OTHERS;
- SUCCESSFUL INTEGRATION OF OUR DIVISIONS' MANAGEMENT STRUCTURES;
- PRODUCT DEMAND AND MARKET ACCEPTANCE;
- THE ABILITY TO PROTECT PROPRIETARY INFORMATION AND TECHNOLOGY OR TO OBTAIN NECESSARY LICENSES ON COMMERCIALY REASONABLE TERMS;
- THE ABILITY TO EXPAND INTO AND SUCCESSFULLY OPERATE IN FOREIGN MARKETS;
- OBTAINING AND RETAINING KEY EXECUTIVES AND EMPLOYEES; AND
- OTHER RISKS AND UNCERTAINTIES AS MAY BE DETAILED FROM TIME TO TIME IN OUR PUBLIC ANNOUNCEMENTS AND FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION.

WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR ANY OTHER REASON. IN LIGHT OF THESE RISKS, UNCERTAINTIES AND ASSUMPTIONS, THE FORWARD-LOOKING EVENTS DISCUSSED IN THIS REPORT MAY NOT OCCUR.

#### DESCRIPTION OF BUSINESSES

##### USA INTERACTIVE GROUP

##### HOME SHOPPING NETWORK

Home Shopping Network sells a variety of consumer goods and services by means of live, customer-interactive electronic retail sales programs that are transmitted via satellite to cable television systems, affiliated broadcast television stations and satellite dish receivers. Home Shopping Network operates three retail sales programs in the United States, each 24 hours a day, seven days a week: HSN and America's Store, in English; and HSE (Home Shopping en Espanol), in Spanish.

Home Shopping Network's retail sales and programming are intended to promote sales and customer loyalty through a combination of product quality, price and

value, coupled with product information and entertainment. HSN and America's Store programs are carried primarily by cable television systems and also by broadcast television stations throughout the country. HSE is carried primarily in markets with significant Spanish speaking populations. All three programs are divided into segments that are televised with a host who presents the merchandise, sometimes with the assistance of a guest representing the product vendor, and conveys information relating to the product. Viewers purchase products by calling a toll-free telephone number. According to Nielsen Media Research, as of December 31, 2001, HSN was available in approximately 82.7 million unduplicated households, including approximately 73.1 million cable households. These numbers were reduced, as shown in the

table below, as of January 14, 2002, as a result of the last of the USA stations sold to Univision converting from HSN programming to Univision programming. See "Broadcast Television Distribution" below.

The following table highlights the changes in the estimated unduplicated television household reach of HSN, by category of access for the year ended December 31, 2001 and through January 14, 2002:

CABLE(1)(2)	BROADCAST(1)(3)	OTHER	TOTAL	-----	---
----- (IN THOUSANDS OF					
HOUSEHOLDS) Households--December 31,					
2000.....	65,580	9,860	1,296		
	76,736	Net			
additions/(deletions).....					
7,554	(1,208)	(425)	5,921	-----	-----
Households--December 31,					
2001.....	73,134	8,652	871		
	82,657	(Deletions)	after year end due to		
Disengagement(4).....	(1,880)	(7,253)	0	(9,133)	--
----- Households January 14,					
2002.....	71,254	1,399	871		
	73,524	=====	=====	=====	=====

- (1) Households capable of receiving both broadcast and cable transmissions are included under cable and therefore are excluded from broadcast to present unduplicated household reach.
- (2) Cable households included 14.7 million and 11.6 million direct broadcast satellite households at December 31, 2001 and 2000, respectively, and therefore are excluded from other.
- (3) See "Broadcast Television Distribution" below for a discussion of the disaffiliation of certain stations from HSN in 2001 and 2002.
- (4) Households lost as a result of the conversion of the majority owned stations sold to Univision by USA, from HSN programming to Univision programming. HSN believes that the majority of the lost cable households will be recaptured over the next 12 to 18 months. See "Broadcast Television Distribution" below.

According to industry sources, as of December 31, 2001, there were 105.4 million homes in the United States with a television set, 73.2 million basic cable television subscribers and 871,000 homes with satellite dish receivers, excluding direct broadcast satellite.

As of December 31, 2001, America's Store reached approximately 8.5 million cable television households, of which 1.2 million were on a part time basis. Of the total cable television households receiving America's Store, 8.2 million also receive HSN.

As of December 31, 2001, HSE reached approximately 5.8 million Hispanic broadcast television households. This total includes 2.9 million Hispanic households that receive HSE pursuant to an agreement with Mun2 (a national network) that became effective April 1, 2001. For more information, see "-International Home Shopping Network Ventures-SPANISH LANGUAGE NETWORKS."

CUSTOMER SERVICE AND RETURN POLICY

Home Shopping Network believes that satisfied customers will be loyal and will purchase merchandise on a regular basis. Accordingly, Home Shopping Network has customer service personnel and/or computerized voice response units available to handle calls relating to customer inquiries 24 hours a day, seven days a week. Generally, any item purchased from Home Shopping Network may be returned within 30 days for a full refund of the purchase price, including the original shipping and handling charges.

DISTRIBUTION, DATA PROCESSING AND TELECOMMUNICATIONS

Home Shopping Network's fulfillment subsidiaries store, service and ship

merchandise from warehouses located in Salem, Virginia, Waterloo, Iowa and in a fulfillment facility in Fontana, California that was opened in 2001.

Home Shopping Network currently operates multiple main frame and distributed computing platforms and has extensive computer systems which track purchase orders, inventory, sales, payments, credit authorization, and delivery of merchandise to customers. During 2001, Home Shopping Network

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continued to make significant progress upgrading many of its computer systems. These upgrades will continue in 2002 through enhancements to existing systems and roll out of additional key operational systems.

Home Shopping Network has digital telephone and switching systems and utilizes voice response units, which allow callers to place their orders by means of touch-tone input or to be transferred to an operator.

#### PRODUCT PURCHASING AND LIQUIDATION

Home Shopping Network purchases merchandise made to its specifications, merchandise from manufacturers' lines, merchandise offered under certain exclusive rights and overstock inventories of wholesalers. The mix of products and source of such merchandise depends upon a variety of factors including price and availability. Home Shopping Network generally does not have long-term commitments with its vendors, and there are various sources of supply available for each category of merchandise sold.

Home Shopping Network's product offerings include: homegoods, which include consumer electronics, collectibles, housewares, consumables, entertainment, sports and fitness; jewelry; apparel, which includes fashion and accessories; and cosmetics, which consists primarily of cosmetics, skin care and nutritional supplements. For 2001, homegoods, jewelry, apparel and cosmetics accounted for approximately 51%, 25%, 13% and 11%, respectively, of Home Shopping Network's net sales.

Home Shopping Network liquidates excess inventory through its four outlet stores located in the Tampa Bay and Orlando areas. Damaged merchandise is liquidated by Home Shopping Network through traditional channels.

#### TRANSMISSION AND PROGRAMMING

Home Shopping Network produces its programming in its studios located in St. Petersburg, Florida. HSN, America's Store and HSE programs are distributed to cable television systems, broadcast television stations, direct broadcast satellite, and/or satellite antenna owners by means of Home Shopping Network's satellite uplink facilities to satellite transponders leased by Home Shopping Network. Any cable television system, broadcast television station or individual satellite dish owner in the United States and the Caribbean Islands equipped with standard satellite receiving facilities and the appropriate equipment is capable of receiving HSN, America's Store and HSE.

Home Shopping Network has lease agreements securing full-time use of two transponders on two domestic communications satellites. Each of the transponder lease agreements grants Home Shopping Network "protected" rights. When the carrier provides services to a customer on a "protected" basis, replacement transponders (I.E., spare or unassigned transponders) on the satellite may be used in the event the "protected" transponder fails. Should there be no replacement transponders available, the "protected" customer will displace a "preemptible" transponder customer on the same satellite. The carrier also maintains a protection satellite and should a satellite fail completely, all "protected" transponders would be moved to the protection satellite that is available on a "first fail, first served" basis.

A transponder failure that would necessitate a move to another transponder on the same satellite would not result in any significant interruption of service to the cable systems and/or television stations which receive HSN, America's Store or HSE. However, a failure that would necessitate a move to another satellite may temporarily affect the number of cable systems and/or television stations that receive HSN, America's Store or HSE, as well as all other programming carried on the failed satellite, because of the need to install equipment or to reorient earth stations.

The terms of two of the satellite transponder leases utilized by Home Shopping Network are for the life of the satellites, which are projected through November of 2004 for the satellite presently carrying HSN and through May of 2005 for the satellite carrying America's Store and HSE.

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Home Shopping Network's access to two transponders pursuant to long-term agreements would enable it to continue transmission of Home Shopping Network programming should either one of the satellites fail. Although Home Shopping Network believes it is taking every reasonable measure to ensure its continued satellite transmission capability, there can be no assurance that termination or interruption of satellite transmissions will not occur. Such a termination or



interruption of service by one or both of these satellites could have a material adverse effect on the operations and financial condition of USA.

The availability of replacement satellites and transponder time beyond current leases is dependent on a number of factors over which Home Shopping Network has no control, including competition among prospective users for available transponders and the availability of satellite launching facilities for replacement satellites.

The FCC grants licenses to construct and operate satellite uplink facilities that transmit signals to satellites. These licenses are generally issued without a hearing if suitable frequencies are available. Home Shopping Network has been granted one license for operation of C-band satellite transmission facilities and one license for operation of KU-band satellite transmission facilities on a permanent basis in Clearwater and St. Petersburg, Florida.

#### CABLE TELEVISION DISTRIBUTION

Home Shopping Network has entered into affiliation agreements with cable system operators to carry HSN, America's Store, HSE, and/or a combination of the services. These agreements are multi-year arrangements, and obligate the cable operator to assist with the promotional efforts of Home Shopping Network by carrying commercials promoting HSN, America's Store and HSE and by distributing Home Shopping Network's marketing materials to the cable operator's subscribers. All cable operators receive significant compensation for carriage, including a commission based on a percentage of the net merchandise sales within the cable operator's franchise area and, generally, additional compensation consisting of the purchase of advertising availabilities from cable operators on other programming networks, commission guarantees for the operator, or upfront payments to the operator in return for commitments to deliver a minimum number of Home Shopping Network subscribers for a certain number of years. From time to time, a cable network operated by HSN will be distributed on one or more cable systems without a distribution agreement in effect while the parties negotiate a new agreement, a process that may be protracted. While the cessation of carriage by a major cable operator would have a negative impact on the financial results of HSN, the Company has successfully managed the distribution agreement process in the past, and believes it will continue to do so.

#### BROADCAST TELEVISION DISTRIBUTION

Home Shopping Network has entered into affiliation agreements with television stations to carry HSN, America's Store or HSE programs. As of December 31, 2001, Home Shopping Network had affiliation agreements with 7 full-time, full-power television stations, 33 part-time, full-power television stations and 95 low-power television stations for the carriage of HSN, America's Store or HSE programs. The affiliation agreements have terms ranging from several weeks to several years. All television station affiliates receive an hourly or monthly fixed rate for airing HSN, America's Store or HSE programs. A full-power television station is generally carried by cable operators within the station's coverage area. For more information, see "Regulation--Communications Industry--Must-Carry/Retransmission Consent." Low-power stations are rarely carried by cable systems and may be displaced by broadcast digital television transmissions.

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In addition to these affiliation agreements with independently owned television stations, USA formerly carried HSN on a full-time basis on 10 of its 13 owned and operated full-power television stations (three of the 10 stations did not carry HSN during all of 2001) and 27 low-power television stations. On December 7, 2000, USA entered into an agreement to transfer its 13 full-power television stations and its minority interest in 4 other full-power television stations (three of which carried HSN) to Univision in a series of closings in 2001, with the final payment made in January 2002 and on January 14, 2002, the last of the USA stations converted to Univision programming. Two of the full-power television stations in which USA had a minority interest continue to carry HSN pursuant to affiliation agreements with Home Shopping Network. USA also sold the 27 low-power television stations to Ventana Television, Inc., subject to long-term affiliation agreements with Home Shopping Network, with USA retaining a 25% interest in the low-power television stations.

As noted in the Company's previous filings, the majority of the USA stations sold to Univision are located in the largest markets in the country and aired HSN on a 24-hour basis. Home Shopping Network entered into agreements with major cable operators in the aforementioned markets under which those cable operators will transition HSN from broadcast to satellite feed upon disaffiliation. Home Shopping Network expects that it will successfully manage the process of disaffiliation. A majority of HSN customers in these markets who receive HSN only through over-the-air broadcast television will not be able to receive HSN unless they subscribe to a cable or satellite service that offers HSN. As a result of switching these markets directly to cable carriage, HSN lost approximately 12 million homes and accordingly, HSN's operating results have been and 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. HSN anticipates losing sales, which translates on a pro forma basis for 2001, of \$108 million and Adjusted EBITDA

(as defined below in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and which USA previously referred to as "EBITDA") of \$15 million. These anticipated losses are consistent with previous disclosures, in which it was stated that disengagement losses would equal approximately 6% of HSN's sales and Adjusted EBITDA. In addition, in order to effectively transfer HSN's distribution to cable (which has been accomplished), USA will incur charges of approximately \$100 million in the form of payments to cable operators and related marketing expenses. In effect, this approximately \$100 million payment will reduce USA's pre-tax proceeds from the Univision transaction from \$1.1 billion to approximately \$1 billion. These disengagement costs are excluded from Adjusted EBITDA. Approximately \$4.1 million of these costs were incurred in 2001 and \$35.9 million are expected to be incurred in 2002. USA believes that its disengagement costs increased to the higher end of USA's anticipated range of costs, since USA was required to achieve a certain portion of disengagement after the Univision announcement and with specified end-dates for continuing broadcast distribution.

#### DIRECT BROADCAST SATELLITE DISTRIBUTION

Home Shopping Network has entered into affiliation agreements with the two largest direct broadcast satellite operators to carry HSN. The agreements are multi-year arrangements, and obligate the direct broadcast satellite operator to deliver a minimum number of HSN subscribers throughout the term in consideration for a distribution payment and a commission based on net merchandise sales to such subscribers. The direct broadcast satellite operators are also obligated to assist with the promotional efforts of Home Shopping Network by carrying commercials promoting HSN and by distributing Home Shopping Network's marketing materials to its subscribers.

#### INTERNATIONAL HOME SHOPPING NETWORK VENTURES

GERMANY. Home Shopping Network owns 41.9% of H. O. T. Home Order Television AG ("HOT Germany"), a joint venture that operates a German language shopping business that is broadcast 24 hours a day. HOT Germany has now been re-branded as Home Shopping Europe--Germany. Home

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Shopping Network has entered into a shareholders agreement with another shareholder of HOT Germany, Georg Kofler, which, among other things, provides that Mr. Kofler will vote his shares in HOT Germany, representing approximately 15% of HOT Germany, as directed by Home Shopping Network on certain matters including the election of a majority of the members of the Supervisory Board of HOT Germany. Mr. Kofler may not sell his shares of HOT Germany until December 2003, after which time Home Shopping Network has a right of first refusal with respect to such shares. The other shareholders in HOT Germany are Thomas Kirch, owning approximately 33%, and Quelle AG, owning approximately 10.1%. Home Shopping Network, Georg Kofler and the other shareholders of HOT Germany are currently discussing alternative arrangements with respect to their relationship. Home Shopping Network has guaranteed certain bank loans to Mr. Kofler by agreeing to purchase, at a price not to exceed \$50 million, Mr. Kofler's shares in HOT Germany that have been pledged to the banks providing the loans in the event of a default by Mr. Kofler.

EUROPE. On December 17, 1999, USA entered into an agreement with Thomas and Leo Kirch and Georg Kofler pursuant to which each agreed to cooperate with each other to pursue live televised shopping and related e-commerce opportunities in Europe. Pursuant to this agreement, the parties formed HOT Networks AG, a German stock corporation owned 46.67% by Home Shopping Network ("HOT Networks"), which, through its subsidiaries, operates (as described below) shopping and related businesses in Italy, the UK, Belgium and France and has an interest in a German broadcast station featuring transactional travel and gaming programming. There is currently no voting arrangement in place between Home Shopping Network and Georg Kofler with respect to HOT Networks as there is with respect to HOT Germany, or with any other shareholder of HOT Networks, and, therefore, Home Shopping Network does not control HOT Networks. HOT Networks has incurred net losses in each of its past two fiscal years and will require additional funding for its operations. In addition, HOT Networks has funding obligations with respect to its investment in Euvia, which entity is described below. Each of the international operations is at an early stage of development and the Company can provide no assurance that these businesses will continue at their current levels of operations. Home Shopping Network and the other shareholders of HOT Networks are currently discussing alternative arrangements with respect to their relationship.

ITALY. Home Shopping Europe S.p.A ("Home Shopping Europe--Italy") broadcasts Italian-language televised shopping programming via an Italian national broadcast network. H.O.T. Home Order Television Europe GmbH ("HOT Europe") owns 87.5% and, as of 2001, Convergenza, a Belgian company, owns 12.5% of Home Shopping Europe-Italy. Home Shopping Network has a 37.2% non-voting equity interest in HOT Europe and HOT Networks, Georg Kofler and Thomas Kirch are also shareholders in that entity, but all voting rights in HOT Europe are held, and HOT Europe is controlled, by Messrs. Kofler and Kirch.

As of December 31, 2001, Home Shopping Europe--Italy owned 100% of the

equity of an entity formerly known as Vallau Italia Promomarket ("VIP") and now called Home Shopping Europe Broadcasting S.p.A. that operates an Italian national broadcast network. VIP had applied for a license to operate a national broadcast network in Italy that was denied by the Italian authorities in May 2000. However, an appeal has been filed and a stay of the government's order issued until the decision to deny the license is reviewed. The stay of the order denying the license allows Home Shopping Europe Broadcasting S.p.A. to continue broadcasting until the appeal is heard and a decision rendered or the stay is dismissed or vacated. There can still be no assurance that Home Shopping Europe Broadcasting S.p.A. will be granted a license in Italy. As of the end of 2001, Home Shopping Europe--Italy was broadcasting 24 hours a day, seven days a week with 11 hours of live programming each day. In the event a national broadcast license or authorization is not granted after the above-mentioned litigation, Home Shopping Europe--Italy would be required to seek alternative means of distributing its programming. Currently, there are limited available means of distributing television programming on a nationwide basis and there can be no assurance that alternative means of distribution can be secured.

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UNITED KINGDOM. In October 2001, HOT Networks started broadcasting English-language televised shopping business called Home Shopping Europe--UK in St. Albans outside London and which is broadcast 24 hours a day, seven days a week in the United Kingdom.

EUVIA. In 2001, HOT Networks purchased 48.6% of Euvia Media AG & Co. KG ("Euvia"), the primary asset of which is a German broadcast station called Neun Live. Euvia programming includes transactional travel programming under the name "sonnenklar" and other interactive programming. The other two shareholders in Euvia are ProSiebenSat.1 Media (a company controlled by Thomas Kirch) and Christiane zu Salm, CEO of Euvia, with whom HOT Networks has entered into a voting agreement, giving HOT Networks control of Euvia.

BELGIUM/FRANCE. In 2000, HOT Networks began a French-language televised shopping business that was formerly called "HOT Le Grand Magasin" (now called Home Shopping Europe en Francais) from a facility in Brussels, Belgium and which is broadcast 24 hours a day, seven days a week in Belgium and France.

BELGIUM/NETHERLANDS. In 2001, HOT Networks also began a Dutch-language televised shopping business that is called Home Shopping Europe en het Nederlands that is produced and broadcast from the same facilities in Brussels, Belgium as Home Shopping Europe en Francais.

CHINA. In June 2000, Home Shopping Network purchased a 21% take in TVSN (China) Holdings Ltd. and will also have the ability to purchase a larger stake in that company over the next several years. TVSN, through its Chinese partners, broadcasts a televised shopping business 18 hours a day in Mandarin Chinese from facilities in Shanghai, People's Republic of China. TVSN currently reaches over 16 million full-time equivalents households in China.

JAPAN. In 1997, Home Shopping Network acquired a 30% interest in Jupiter Shop Channel Co. Ltd., a venture based in Tokyo. Jupiter Shop Channel broadcasts televised shopping 24 hours a day, of which 60 hours per week are devoted to live shopping. Jupiter Shop Channel has reached agreements to be available in approximately 3.37 million full-time equivalent households as of December 31, 1999. Liberty Media International, Inc., a subsidiary of Liberty, owns a 50% interest in Jupiter Programming Co. Ltd. that is the 70% shareholder in the venture.

SPANISH LANGUAGE NETWORKS. During 2001, Home Shopping Network continued to operate Home Shopping en Espanol (also known as Home Shopping Espanol). At the end of 2001, Home Shopping Espanol was producing nine hours of live programming a day that was aired 24 hours a day, seven days a week in the United States. Puerto Rico: The Company entered an agreement in December 2000 to purchase three television stations in Puerto Rico: WAVB-TV, San Juan, Puerto Rico; WVEO-TV, Aguadilla, Puerto Rico; and WVOZ-TV, Ponce, Puerto Rico. Pursuant to a separate affiliation agreement, the owner of these stations broadcast Home Shopping Espanol's programming from February 1, 2001 through January 7, 2002. On December 14, 2001, prior to closing, the Company terminated the purchase agreement by and in accordance with its terms. The Company has now sued the owner of the stations for the return of the Company's \$1.8 million deposit currently held in escrow. The owner of the stations has filed an answer and counterclaim, opposing the Company's right to the return of its deposit and claiming that the Company improperly terminated the purchase agreement. Home Shopping Espanol programming is no longer broadcast on those three stations in Puerto Rico, but is still distributed in approximately 37,000 cable households on the island. Mexico: Home Shopping Espanol began distribution of its programming in Mexico as of the end of May 2001 24 hours a day, seven days a week. Three hours are broadcast live each day from Home Shopping Espanol's studios in St. Petersburg, FL to the Mexican audience. The Company is reviewing its strategic plans for its Spanish Language Networks.

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Home Shopping Network operates HSN.com as a transactional e-commerce site. HSN.com serves as an alternative store front that allows consumers to shop for merchandise from Home Shopping Network's inventory, rather than just viewing the current product offering on Home Shopping Network's television programming.

HSN.com offers specialized product shopping areas based on product categories, key brands, guest personalities and other areas of interest. HSN.com also offers editorial and informational content, such as photographs and information about Home Shopping Network show hosts and guest personalities, tips for consumers on improving their lives, customer service and television programming information. HSN.com also offers special features such as streaming video of Home Shopping Network's television programming, and live chats with celebrity guests.

HSN.com provides Home Shopping Network with a means of reaching additional consumers who may not watch or purchase from its television shopping programming, and to increase total purchases by its existing customers.

HSN.com was profitable on an operating basis within three months of its launch in 1999, and has grown to become an important selling platform for Home Shopping Network, generating approximately 10% of U.S. sales by the end of 2001, and greater revenue in the final quarter of 2001 than in all of 2000.

TICKETING

Ticketmaster(1) is a leading provider of automated ticketing services with over 7,000 domestic and foreign clients, including many of the foremost entertainment facilities, promoters and professional sports franchises. Ticketmaster is also a leading local portal and electronic commerce company that provides in-depth local content and services to help people get things done online. Ticketmaster's principal online businesses are ticketing, personals, city guide and camping reservations. Ticketmaster's family of websites includes ticketmaster.com, Match.com, citysearch.com, reserveamerica.com, museumtix.com, ticketweb.com, evite.com and livedaily.com, among others. Ticketmaster's businesses are operated in three segments: (1) ticketing, (2) personals and (3) city guide. Ticketing includes both online and offline ticketing and camping reservations operations, Match.com includes online personals, and Citysearch and Related includes city guides and Ticketmaster's other online properties. The ticketing operations are discussed in this section. Ticketmaster's personals, city guides and other businesses are discussed below under "Match.com" and "Citysearch and Related", respectively.

Ticketmaster provides its clients with comprehensive ticket inventory control and management, a broad distribution network and dedicated marketing and support services. Ticket orders are received and fulfilled through operator-staffed call centers, independent sales outlets remote to the facility box office and through the ticketmaster.com website. Ticketing revenue is generated principally from service charges and order processing fees received by Ticketmaster for tickets sold on its clients' behalf. Ticketmaster generally serves as an exclusive agent for its clients and typically has no financial risk for unsold tickets.

Ticketmaster sold 86.7 million tickets in fiscal 2001, generating revenues of \$579.7 million. Gross transaction value for fiscal 2001 was \$3.6 billion.

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(1) Unless the context otherwise requires, references to "Ticketmaster" include Ticketmaster (the company formerly known as Ticketmaster Online-Citysearch, Inc.) and Ticketmaster Group, Inc. and their predecessors, wholly owned subsidiaries, majority-owned or controlled subsidiaries and ventures and their licensees. These companies were combined in January 2001 and the name of the combined company was changed to "Ticketmaster." See "Corporate History--CERTAIN INTERACTIVE GROUP TRANSACTIONS--TICKETMASTER TRANSACTIONS."

Ticketmaster has continued to expand its ticketing operations into territories outside of the U.S., and has experienced growth in these markets as the number of tickets sold has increased from 14.2 million to 17.8 million from fiscal 2000 to fiscal 2001, resulting in increased revenues from international ticket sales.

Ticketmaster also has expanded its ticket distribution capabilities through the continued development of the ticketmaster.com website and related international websites, which are designed to promote ticket sales for live events and disseminate event information. Ticketmaster has experienced significant growth in ticket sales through its websites in recent years and this trend is expected to continue during the next several fiscal years. For the year ended December 31, 2001, online ticket sales through ticketmaster.com and related websites accounted for approximately 32.1% of Ticketmaster's ticketing business, with ticket sales of approximately 27.8 million tickets having a gross

dollar value of over \$1.3 billion.

Ticketmaster believes that its proprietary operating system and software, which is referred to as the Ticketmaster System, and its extensive distribution capabilities provide it with benefits that enhance Ticketmaster's ability to attract new clients and maintain its existing client base. The Ticketmaster System, which includes both hardware and software, is typically located in a data center that is managed by Ticketmaster staff. The Ticketmaster System provides a single, centralized inventory control and management system capable of tracking total ticket inventory for all events, whether sales are made on a season, subscription, group or individual ticket basis. All necessary hardware and software required for the use of the Ticketmaster System is installed in a client's facility box office, call centers or remote sales outlets. The Ticketmaster System is capable of processing over 100,000 tickets per hour, and each of its 26 regional computer systems can support 32,000 users, of which as many as 5,000 can theoretically be actively using the system at any one time.

Ticketmaster has a comprehensive ticket distribution system that includes approximately 3,300 retail Ticket Center outlets and 16 worldwide call centers with approximately 1,750 operator and customer service positions. Ticketmaster provides the public with convenient access to tickets and information regarding live entertainment events. Ticket purchasers are assessed a convenience charge for each ticket sold outside of the venue box office by Ticketmaster on behalf of its clients. These charges are negotiated and included in Ticketmaster's contracts with its clients. The versatility of the Ticketmaster System allows it to be customized to satisfy a full range of client requirements.

Ticketmaster generally enters into written agreements with its clients pursuant to which it agrees to provide the Ticketmaster System and related systems purchased by the client, and to serve as the client's exclusive ticket sales agent for all sales of individual tickets sold to the general public outside of the facility's box office, including any tickets sold at remote sales outlets, over the phone or via the Internet, for a specified period, typically three to five years. Pursuant to an agreement with a facility, Ticketmaster generally is granted the right to sell tickets for all events presented at that facility, and as part of such arrangement Ticketmaster installs the necessary ticketing equipment in the facility's box office. An agreement with a promoter generally grants Ticketmaster the right to sell tickets for all events presented by that promoter at any facility, unless the facility is covered by an exclusive agreement with Ticketmaster or another automated ticketing service company.

Ticketmaster generally does not buy tickets from its clients for resale to the public and typically has no financial risk for unsold tickets. All ticket prices are determined by Ticketmaster's clients. Ticketmaster's clients also generally determine the scheduling of when tickets go on sale to the public and what tickets will be available for sale through Ticketmaster. Facilities and promoters, for example, often handle group sales and season tickets in-house. Ticketmaster only sells a portion of its clients' tickets, the amount of which varies from client to client and varies as to any single client from year to year.

Ticketmaster believes that the Ticketmaster System provides its clients with numerous benefits, including (1) broader and expedited distribution of tickets, (2) centralized control of total ticket

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inventory as well as accounting information and market research data, (3) centralized accountability for ticket proceeds, (4) manageable and predictable transaction costs, (5) wide dissemination of information about upcoming events through Ticketmaster's call centers, ticketmaster.com and other media platforms, (6) the ability quickly and easily to add additional performances if warranted by demand and (7) marketing and promotional support.

Pursuant to its contracts with clients, Ticketmaster is granted the right to collect from ticket purchasers a per ticket convenience charge on all tickets sold at remote sales outlets, by telephone, through ticketmaster.com and other media. There is an additional per order "order processing" fee on all tickets sold by Ticketmaster at other than remote sales outlets. Generally, the amount of the convenience charge is determined during the contract negotiation process, and typically varies based upon numerous factors, including the services to be rendered to the client, the amount and cost of equipment to be installed at the client's box office and the amount of advertising and/or promotional allowances to be provided, as well as the type of event and whether the ticket is purchased at a remote sales outlet, by telephone, through ticketmaster.com or otherwise. Any deviations from those amounts for any event are negotiated and agreed upon by Ticketmaster and its client prior to the commencement of ticket sales. During fiscal 2001, the convenience charges generally ranged from \$1.50 to \$8.25 per ticket. Average revenue per ticket (which includes convenience charges and order processing fees and other revenue sources directly related to the sale of tickets) was \$6.11 in fiscal 2001. Generally, the agreement between Ticketmaster and a client will also establish the amounts and frequency of any increases in the convenience charge and order processing fees during the term of the agreement.

The agreements with certain of Ticketmaster's clients may also provide for a

client to participate in the convenience charges and/or order processing fees paid by ticket purchasers for tickets bought through Ticketmaster for that client's events. The amount of such participation, if any, is determined by negotiation between Ticketmaster and the client. Some agreements also may provide for Ticketmaster to make participation advances to the client, generally recoupable by Ticketmaster out of the client's future right to participations. In isolated instances, the client may negotiate the right to receive an upfront, non-recoupable payment from Ticketmaster as an incentive to enter into the ticketing service agreement.

Ticketmaster.com, Ticketmaster's primary online ticketing website, is a leading online ticketing service. The service enables consumers to purchase tickets for live music, sports, arts and family entertainment events presented by Ticketmaster's clients and related merchandise over the Web. Consumers can access the ticketmaster.com service at [www.ticketmaster.com](http://www.ticketmaster.com), from Ticketmaster's other owned and operated websites, including [citysearch.com](http://citysearch.com), and through numerous direct links from banners and event profiles hosted by third party websites. In addition to these services, the ticketmaster.com website and related international websites provide local information and original content regarding live events for Ticketmaster clients throughout the United States, Canada, Norway, Ireland and the United Kingdom.

Since the commencement of online ticket sales in November 1996, ticketmaster.com has experienced significant growth in the volume of tickets sold through its website. Gross transaction dollars for ticket sales through its website increased from approximately \$223,000 in November 1996 to \$115.1 million in December 2001. Similarly, tickets sold on the ticketmaster.com website in November 1996 represented less than 1% of total tickets sold by Ticketmaster, while tickets sold online in the quarter ended December 31, 2001 represented approximately 33.9% of tickets sold.

In addition, Ticketmaster's ticketing segment includes its other ticketing companies, TM VISTA, Inc. (formerly know as 2b Technology, Inc.) and TicketWeb Inc., which were acquired by Ticketmaster in June 2000 and May 2000, respectively.

TM VISTA is a Richmond, Virginia-based visitor management software developer and offline and online ticketing company. In 2001, TM VISTA changed its name from 2b Technology to reflect the

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focus on its core software product, the VISTA ticketing system. TM VISTA targets venues such as museums, cultural institutions and historic sites through its websites [tmvista.com](http://tmvista.com) and [museumtix.com](http://museumtix.com). Representative clients include the Guggenheim Museum and the Los Angeles County Art Museum.

TicketWeb is a leading provider of self-service, Internet-based box-office ticketing operations. TicketWeb revenue is generated principally from convenience charges and order processing fees received by TicketWeb for tickets sold on its clients' behalf. TicketWeb's primary clients are small- to medium-sized venues and event promoters that generally sell fewer than 5,000 tickets per year. In exchange for a license fee, TicketWeb provides its clients with password-protected access to TicketWeb's proprietary system, TicketWeb 2.0. Using a standard Internet web browser, TicketWeb clients can perform a full range of box-office operations, such as create and edit events, monitor ticket sales, download will-call lists and take advantage of TicketWeb's sales and marketing tools.

Also included in the ticketing segment is Ticketmaster's wholly-owned subsidiary, ReserveAmerica Holdings, Inc., a campground reservation services company acquired in February 2001. 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. ReserveAmerica also offers its software and services to private campgrounds. The ReserveAmerica system permits the general public to make camping reservations and obtain access to public recreation attractions over the Internet, by telephone or in person. ReserveAmerica's Internet sites ([www.reserveamerica.com](http://www.reserveamerica.com) and [www.reserveusa.com](http://www.reserveusa.com)) service up to 30,000 visitors daily, and its three telephone call centers are located in New York, California and Wisconsin. ReserveAmerica also utilizes a portion of Ticketmaster's call center located in Orlando, Florida.

#### EXPEDIA

USA acquired a controlling interest in Expedia, Inc. on February 4, 2002. Expedia is a leading provider of travel planning services for leisure and small business travelers. Expedia-Registered Trademark- is one of the largest predominantly online travel agencies in the U.S. and, in 2001, was ranked the seventh largest travel agency in the U.S by Travel Weekly. Expedia operates websites offering travel planning services located at [Expedia.com](http://Expedia.com), [Expedia.co.uk](http://Expedia.co.uk), [Expedia.de](http://Expedia.de), [Expedia.ca-TM-](http://Expedia.ca-TM-), [Expedia.nl](http://Expedia.nl) and [Expedia.it](http://Expedia.it). Expedia also provides travel planning services through [Voyages-sncf.com](http://Voyages-sncf.com), as part of a joint venture with SNCF, the state-owned railways group in France. In addition, Expedia provides travel planning services through its telephone call centers and on private-label travel websites through its WWTE business. WWTE is a division

of Travelscape, Inc., a wholly owned subsidiary of Expedia, Inc. With its recent acquisition of Classic Custom Vacations, Expedia also provides premier travel packages through its network of travel agents and travel agencies.

Expedia has developed a global travel marketplace in which travel suppliers can reach, in a highly efficiently manner, a large audience of consumers who are actively planning and purchasing travel. Expedia offers suppliers a broad range of merchandising strategies designed to increase their revenues. Expedia currently offers travel services provided by 450 airlines, 43,000 lodging properties, all major car rental companies, numerous vacation packagers and cruise lines and many thousand destination service merchants such as restaurants, attractions and local transportation and tour providers.

Expedia has developed innovative and robust technology to power its marketplace. In particular, Expedia's Expert Searching and Pricing platform (ESP) is an industry leading platform that includes two components: a fare-searching engine that enables broader and deeper airline fare and schedule searches; and a common database platform that allows Expedia and its customers to bundle all types of travel services together dynamically, which further enhances Expedia's ability to cross-sell or package inventory. ESP has helped Expedia become one of the largest online packagers of travel.

Expedia allows customers to purchase travel services under two different business models: the agency model and the merchant model. Under the agency model, Expedia acts as an agent in the transaction, passing a customer's reservation to the airline, hotel, car rental company or destination

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service provider. Expedia receives a commission from the travel supplier for its services as an agent. In an agency transaction, the supplier determines the retail price paid by the customer, and the supplier is the merchant. Under the merchant model, an Expedia subsidiary purchases inventory from suppliers at negotiated rates, determines the retail price that the customer pays and processes the transactions as the merchant in the transaction. Acting as a merchant enables Expedia to bypass intermediaries and achieve a significantly higher level of gross profit per transaction than in the agency model. Integrating the merchant inventory with the ESP technology platform has allowed Expedia to create product offerings that benefit both customers and suppliers.

Expedia's business relies heavily upon its intellectual property rights. The software code, informational databases, and other components that make up Expedia's travel planning service are protected by copyright registrations and patent applications. Trademarks, service marks and logos associated with the names "Expedia," the "Airplane Design," "Travelscape," "Las Vegas Reservation Services," "Rent-a-Holiday" and "WYTE" provide and promote brand recognition for Expedia's travel planning service. As of March 9, 2002, Expedia also uses trademarks, service marks and logos associated with the names "Classic," "Bird of Paradise Design," "Classic Custom Vacations," "Classic Destination Management," "Classic Package Vacations," "Classic Resorts of America," "Classic Vacations," "Haddon Holidays" and "The Classic Collection." Consumers have come to recognize and associate the "Expedia" brand with Expedia's service. Expedia also relies on trademark and trade secret protection law, copyright law, patent law and confidentiality and/or license agreements with its employees, customers, associates and others to protect its proprietary rights. Expedia vigorously pursues the defense and regulation of its copyrights, patents, trademarks and service marks in the United States and internationally.

Expedia has several arrangements relating to intellectual property with Microsoft Corporation, its former parent and a current USA shareholder, many of which were recently amended and extended. Expedia licenses certain retail products and other technology from Microsoft. All of the licenses relating to Expedia specific software content and data are royalty-free, irrevocable and perpetual. Pursuant to a hosting services agreement, Microsoft provides Expedia with internet service provider services for its Expedia websites. Pursuant to a map server agreement, Microsoft licenses to Expedia certain server technology related to the Expedia Maps service whereby Microsoft will develop, maintain, host and serve maps to the Expedia websites. Pursuant to a patent assignment agreement, Microsoft assigned to Expedia all of Microsoft's patents relating to the operation of Expedia's websites with a limited license of such patents from Expedia to Microsoft.

#### HOTEL RESERVATIONS

Hotel Reservations Network is a leading consolidator of hotel and other lodging accommodations. Hotel Reservations Network contracts with lodging properties in advance for volume purchases and guaranteed availability of rooms at wholesale prices and sells these rooms to consumers, often at significant discounts to published rates. In addition, these supply relationships often allow Hotel Reservations Network to offer its customers accommodation alternatives for otherwise unavailable dates. At December 31, 2001, Hotel Reservations Network had room supply agreements with over 4,500 lodging properties in 178 major markets in North America, the Caribbean, Western Europe and Asia.

Following Hotel Reservations Network's acquisition of TravelNow.com Inc. in

February 2001, Hotel Reservations Network began offering its customers the ability to book hotel rooms at over 40,000 hotels (in addition to the hotels with which it has wholesale supply agreements) in over 5,000 cities, air travel on 300 airlines, and car rentals through over 60 car rental companies.

Hotel Reservations Network markets its lodging accommodations primarily over the Internet through its own websites, [www.hotels.com](http://www.hotels.com), [www.hoteldiscount.com](http://www.hoteldiscount.com), [www.180096hotel.com](http://www.180096hotel.com), [www.condosaver.com](http://www.condosaver.com) and [www.travelnow.com](http://www.travelnow.com), through third-party websites and through its telephone call centers. Hotel Reservations Network has negotiated affiliate marketing agreements with many of the

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leading travel-related websites including Travelocity, [nwa.com](http://nwa.com) (operated by Northwest Airlines), [Americawest.com](http://Americawest.com) (operated by America West Airlines), Cheap Tickets, [Vegas.com](http://Vegas.com), [Hotelguide.com](http://Hotelguide.com), [Bestfares.com](http://Bestfares.com), [Yupi.com](http://Yupi.com), and over 16,000 other affiliate websites. Hotel Reservations Network is also prominently featured on and directly linked to most of the leading Internet search engines and online communities, including America Online, Lycos, Yahoo!, Citysearch, Excite and Infoseek. Through these agreements, its accommodations are prominently featured on and linked to these affiliated websites on a co-branded or private label basis.

Hotel Reservations Network has room supply relationships with a wide range of independent hotel operators and lodging properties, as well as hotels associated with national chains, including Hilton, Sheraton, Wyndham, Hyatt, Westin, Radisson, Best Western, Doubletree and Hampton Inn. Hotel Reservations Network believes that these suppliers view it as an efficient distribution channel to help maximize their overall revenues and occupancy levels. Although Hotel Reservations Network contracts in advance for volume room commitments, its supply contracts often allow it to return unsold rooms without penalty within a specified period of time. In addition, because Hotel Reservations Network contracts to purchase rooms in advance, it is able to manage billing procedures for the rooms it sells and thereby maintain direct relationships with its customers. Hotel Reservations Network has developed proprietary revenue management and reservation systems software that is integrated with its websites and call center operations. These systems and software enable Hotel Reservations Network to accurately monitor its room inventory and provide prompt, efficient customer service. Hotel Reservations Network believes that its supply contracts and revenue management capabilities differentiate it from retail travel agencies and other commission-based resellers of accommodations.

#### OTHER TRAVEL INTERESTS

On July 14, 2001, USA entered into an acquisition agreement to acquire 100% of the equity of National Leisure Group ("NLG"). On October 29, 2001, USA and NLG agreed to terminate the acquisition agreement and USA agreed to acquire a \$20 million preferred interest in National Leisure Group. In addition, USA and NLG announced an agreement that names NLG as a preferred provider of cruise and vacation packages to USA's new travel cable channel.

#### TELESERVICES

Precision Response Corporation and its subsidiaries ("PRC") is a leading full-service provider of outsourced Consumer Care services. PRC offers a fully-integrated mix of traditional call center and e-commerce customer care solutions, to service and care for the consumers of its clients, which include both large corporations and internet-focused companies.

PRC offers an integration of teleservices, e-commerce customer care services, information technology, which includes database marketing and management, and fulfillment services as part of a one-stop solution, providing a cost-effective and efficient method for its clients to manage their growing customer service and marketing needs. PRC has developed proprietary Customer Relationship Management (CRM) technology specifically for consumer care. This CRM technology effectively delivers the integration of communications services and is supported by a robust back-end database. CRM is the practice of identifying, attracting and retaining the best customers to generate profitable revenue growth. PRC is typically involved in all stages of formulating, designing and implementing its clients' customer service and marketing programs. USA believes that this integrated, solution-oriented approach, combined with the sophisticated use of advanced technologies, provides a distinct competitive advantage in attracting and retaining clients seeking cost-effective ways to contact and service prospective and existing customers.

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In late 2000 and throughout 2001, PRC augmented its existing consumer care offerings through several acquisitions. Its acquisition of Access Direct Telemarketing, Inc. ("ADT"), a proactive consumer care company, and Hancock Information Group, a high-tech business to business lead acquisition firm, strengthened PRC's outbound service capabilities, further rounding out its suite of services. Also in 2001, PRC acquired Avaltus, Inc., an eLearning and Learning Content Management solution provider, to expand its training organization as well as its service and product offerings.



PRC's consumer care operations allow clients to establish and maintain direct communications with their customers. PRC is experienced in a wide range of industries including travel, telecommunications, financial services, consumer goods and services, hospitality, and energy. PRC believes that its experience, combined with superior training of representatives and leading-edge technology, enables it to service consumer oriented industries in a highly effective manner.

PRC's primary source of revenue is its consumer care activities generally comprised of inbound (customer-initiated) and outbound teleservicing, as well as other means such as e-mail, web collaboration and online chat/IP telephony, all of which involve direct communication with the clients' consumers. The majority of revenues are derived from inbound teleservicing. Inbound teleservicing consists of longer-term customer care and customer service programs that tend to be more predictable than other teleservicing revenues.

In handling inbound calls, customer care representatives respond to a variety of customer requests, including inquiries, billing questions, complaints, direct mail response and order processing and provide technical support. In many cases, the PRC customer care representative will save and retain a consumer on behalf of the client or upsell them to a complementary service offering by educating and informing such consumers with respect to its clients' products and services. The complexity of inbound calls ranges from simple one-dimensional data look-ups to more complex multi-system navigation and analysis or sophisticated technical help and trouble shooting. Automated call distributors and digital telephony switches identify each inbound call by an "800" number, then routes the customer's call to a customer care associate trained and dedicated to that particular client's program.

PRC's outbound services traditionally included conducting customer satisfaction and preference surveys and cross-selling client products, as well as providing proactive customer management with the goal of increased sales and enhanced customer retention. The acquisitions of ADT and Hancock Information Group have added more proactive service calling to PRC's suite of outbound services. Both of these companies specialize in enhancing the sales of its clients' products and services through the use of outbound calling.

In addition to its traditional teleservices-based customer care services, PRC provides, and continues to develop, a total consumer care solution for companies conducting business over the internet. PRC provides e-mail response and management services ("click-to-email"), live web-based customer care services ("click-to-talk", "click-to-chat"), proactive web services, and customer information and database management to companies engaged in e-commerce and other forms of internet communications on a fully outsourced, turnkey basis.

PRC offers a wide variety of information technology services including formulating, designing and customizing teleservicing and electronic applications, programming, and demographic and psychographic profiling. Information technology specialists design, develop and manage applications for each client's unique customer service and marketing programs. PRC has developed a specialized component-based development software strategy with related proprietary products for its teleservicing, e-commerce and fulfillment customer care services.

Fulfillment services include high-speed laser and electronic document printing, lettershop and automated mailing, pick and pack capabilities, e-mail and web-based tracking and order-entry

communications. While fulfillment services represent a relatively small portion of PRC's revenues, they enable the support of full-service customer care and marketing programs by managing and fulfilling requests for literature, products and other specialty items and by permitting the rapid distribution of client marketing information and products.

PRC seeks to develop and maintain long-term relationships with its clients and targets those companies that have the potential for generating recurring revenues due to the magnitude of their customer service departments or marketing programs. Although PRC enters into written contracts with its clients, generally either party retains the right to terminate on varying periods of prior notice. The contracts generally do not assure a specific level of revenue or designate PRC as the exclusive service provider. Contracts typically encompass all aspects of the relationship with the client, together with all applicable charges.

PRC's teleservicing charges are primarily based on a fixed hourly fee for dedicated service; however, PRC does engage in transaction-based pricing arrangements for certain of its clients' business segments. Charges for database marketing and management services are based on an hourly rate or on the volume of information stored. Charges for fulfillment services are typically assessed on a transaction basis, with an additional charge for warehousing products for clients. PRC assesses separate charges for program design, development and implementation, database design and management, training or retraining of personnel, processing and access fees and account services, where appropriate. Billing charges for internet customer care and electronic message servicing are based on hourly rates and on a transaction basis, respectively, or a combination of charges thereof. Overall, PRC's business continued to be adversely affected

by an economy-related slowdown in the outsourcing of consumer care programs, particularly in the telecommunications and financial services areas.

#### MATCH.COM

Match.com is a leading online matchmaking and dating service that offers single adults a convenient and private environment for meeting other singles. Match.com, in combination with the One & Only Network, another online personals company operated by Match.com, features more than 2.5 million members with profiles. As of December 31, 2001, the personals operations had 382,150 paying subscribers.

Match.com is designed to provide adults with a secure, fun environment for meeting other single adults. Match.com provides users with access to other users' personal profiles and enables a user interested in meeting another user to send email messages to that user through Match.com's double-blind anonymous email system. Email recipients can respond, or not, depending on their interest in the sender. Match.com offers users a free service that includes searching, matching and responding to emails from Match.com users; should the user elect to initiate email contact with another Match.com user, Match.com charges a subscription fee, starting with a single-month term, with discounts for longer term subscriptions. Match.com seeks to maintain a balanced number of male and female users by, among other things, forming relationships with women-oriented Internet sites. Match.com also has implemented a number of measures designed to keep the site secure for use by single women.

Match.com has entered into partnerships and strategic alliances with third parties in order to increase subscriptions in general as well as to target particular segments of its potential subscriber base. Typically, these partners earn a commission on each customer subscription they sell into the Match.com service. Match.com expects to continue to pursue strategic alliances and partnerships domestically and in foreign markets, both through its affiliate program and through agreements with third parties, in an effort to expand its overall subscriber base and to encourage subscriptions from targeted audiences. Match.com purchases advertising on websites, including strategic placement of ads on web pages

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related to romance and personals, and television in an effort to increase subscriptions and promote the Match.com brand name.

In September 1999, Ticketmaster purchased One & Only Network, another Internet personals company, which also operates an online affiliate program focused on online matchmaking. These affiliates are able to join the One & Only Network for free, and earn commissions on each customer subscription they sell into One & Only Network's online matchmaking service. One & Only Network is operated as part of the Match.com network, and Ticketmaster is focusing its partnership and advertising efforts on building the Match.com system and brand.

#### CITYSEARCH AND RELATED

Citysearch.com is a network of local city guide sites that offer primarily original local content for major cities in the United States and abroad, as well as practical transactional tools to get things done online. The city guides provide up-to-date, locally produced information about a city's arts and entertainment events, bars and restaurants, recreation, community activities and businesses (shopping and professional services), real estate related information, as well as local sports and weather updates. Citysearch also features a comprehensive directory listing, similar to a yellow pages directory, of local businesses in over 3,000 zip codes in the United States. In addition, Citysearch city guides let people act on what they learn by supporting online business transactions, including ticketing, hotel and restaurant reservations, and matchmaking through affiliations with leading ecommerce websites providing these products.

Ticketmaster has citysearch.com sites in 106 cities in the United States, 103 of which are owned and operated by Ticketmaster and the remaining three of which are partner-led. During 2001, Ticketmaster reduced the number of domestic markets in which Ticketmaster maintains local sales and content staff for from 33 to 15, reflecting a realignment of the city guide focus to a more regionally-based structure. During 2001, Ticketmaster also increased the number of its partner-led international citysearch.com sites from 21 to 43. Ticketmaster's international media partners bring capital, brand recognition, promotional strength and local knowledge to their city guides and allow Ticketmaster to build out its international network of sites faster than it could solely through owned and operated sites.

Citysearch provides local, regional and national businesses with a wide range of Web advertising options designed to reach growing local audiences. Throughout 2001, Citysearch shifted focus from comprehensive Web site design and hosting, toward advertising solutions that are more targeted and client driven.

City guide revenues are generated through the sale of online advertising, both local and national, product licensing and consulting services and to a smaller extent, transaction fees from affiliate partners. Local advertising

revenues are derived primarily from sale of self-enrollment enhanced listings in search results, in context advertising, targeted electronic mail promotions and targeted sponsorship packages. In addition, while becoming a smaller part of the total revenue stream, Citysearch continues to generate local advertising income from Web site development, hosting and placement in Citysearch's directory listings.

Also included in the city guide segment is Evite, Inc., a free online invitation service acquired by Ticketmaster in March 2001. In addition to its invitation service, Evite offers a reminder service, polling, payments collection, restaurant and concert listings, event shopping and local resources. Evite now averages more than 3.6 million sent invitations a month.

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#### USA ELECTRONIC COMMERCE SOLUTIONS

USA Electronic Commerce Solutions ("ECS") was formed in October 1999 as a wholly owned subsidiary of USA. ECS operates and manages online stores by partnering with third parties with strong brands that are committed to using the Internet as a means of providing content and information to further enhance these brands. Within the context of these brand extensions, ECS creates direct selling experiences online and offline by developing, operating and managing the direct selling environment and infrastructure. ECS' services include fulfillment, customer service and customer care, website e-commerce enablement, merchandising, marketing, catalog distribution and direct sales via television.

ECS has obtained exclusive electronic commerce rights from the National Hockey League for its NHL.com site; the National Basketball Association for its NBA.com site; Turner Sports Interactive, Inc., a subsidiary of AOL Time Warner, for its NASCAR.com website; SportsLine, Inc. for its CBS SportsLine.com and mvp.com sites; and the PGA Tour for all of its Tour-branded websites, including PGATour.com. Pursuant to multi-year agreements with these partners, ECS (directly and through its relationships with other USA affiliates) provides their respective sites with electronic commerce capability, integrated media and marketing services, database-driven offers and promotion, and, in some cases, catalog production and distribution, in addition to fulfillment, customer service and merchandising services.

#### STYLECLICK

Styleclick, a majority owned subsidiary of USA, provides e-commerce technology and services to companies in search of effective and profitable out-sourced online strategies. Styleclick offers such business clients a range of services and products, including website design, development and hosting, product imaging, online sales, and merchandising technologies. Clients' websites are hosted on servers owned or leased by Styleclick and rely on a combination of third party and Styleclick proprietary technology to operate. Styleclick generates revenue from clients via service fees charged for such design, construction, operations and maintenance services.

In March 2001, Styleclick announced certain changes including a new company organization designed to advance its offering of scalable commerce services. At that time, Styleclick announced that its Board of Directors had elected Lisa Brown to the office of Chief Executive Officer of Styleclick and Robert Halper to the office of President and Chief Operating Officer of Styleclick. Ms. Brown also serves as Chief Executive Officer and President of ECS, and Mr. Halper also serves as Executive Vice President, Operations and Finance, of ECS.

Styleclick entered into a services agreement with ECS that became effective March 20, 2001. Pursuant to the services agreement, ECS provides certain business operations and financial services to Styleclick at cost. Also pursuant to the services agreement, ECS has agreed to use its reasonable efforts, as determined by ECS, to engage Styleclick to provide ECS's non-affiliated customers with technological services of the type provided by Styleclick to third parties to the extent that Styleclick has the capacity to provide such services itself in a timely manner.

ECS was Styleclick's largest customer during 2001. During the three months ended December 31, 2001, 98% of Styleclick's revenues came from ECS as a customer of Styleclick with respect to Styleclick's provision of services to four of ECS' customers: Turner Sports Interactive, Inc., SportsLine.com, Inc., the PGA Tour and the NHL. ECS-related business accounted for 40% of Styleclick's 2001 revenues, and 80% of Styleclick's 2001 revenues exclusive of revenues attributable to FirstJewelry.com and FirstAuction.com, websites which Styleclick shut down in 2001. Styleclick expects that ECS will continue to represent substantially all of Styleclick's revenue in 2002. Accordingly,

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Styleclick is dependent upon ECS's ability to sell services, including the services provided by Styleclick, to its existing and future customers. However, Styleclick cannot be certain that ECS will use Styleclick's services in any particular instance or at all. ECS's inability to attract new clients, or its decision not to utilize the services of Styleclick, would have a material adverse effect on Styleclick's business, financial condition and results of

operations.

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 continuing operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Styleclick is considering its options with respect to the situation.

## USA ENTERTAINMENT GROUP

### CABLE AND STUDIOS

#### USA CABLE

USA Cable operates four domestic advertiser-supported 24-hour cable television networks, USA Network, Sci Fi Channel, Trio and NewsWorld International ("NWI"). Since its inception in 1977, USA Network has grown into one of the nation's most widely distributed and viewed satellite-delivered television networks. According to Nielsen Media Research, as of December 2001, USA Network was available in approximately 85.2 million U.S. households (81% of the total U.S. households with televisions). For the 2001 year, USA Network tied for the second highest primetime rating of any domestic basic cable network, with an average rating of 1.7 in primetime for the 12-month period (Source: Nielsen Media Research). USA Network is a general entertainment network featuring original series and movies, theatrical movies, off-network television series and major sporting events, designed to appeal to the available audiences during particular viewing hours. In general, USA Network's programming is targeted at viewers between the ages of 25 to 54.

Sci Fi Channel was launched in 1992. It has been one of the fastest-growing satellite-delivered networks since its inception. According to Nielsen Media Research, as of December 2001, Sci Fi Channel was available in approximately 77 million U.S. households (73% of the total U.S. households with televisions)--making it almost a fully-distributed network. Sci Fi Channel features science fiction, horror, fantasy and paranormal programming. In general, Sci Fi Channel's programming is designed to appeal to viewers between the ages of 25 to 54. According to Nielsen Media Research, Sci Fi Channel averaged a primetime 0.8 rating for calendar year 2001, making it a top ten network in its targeted demographic. The Channel has just entered its second year as the largest provider of original dramatic series in primetime on cable.

In addition to the services described above, Sci Fi Channel has its own website, SCIFI.COM, which was launched in 1995. SCIFI.COM is an online science fiction resource, featuring original entertainment, daily news, feature stories, games and special events that focus on science fiction, science fact, fantasy, horror, the paranormal and the unknown.

Trio and NWI were acquired by USA Cable from the Canadian Broadcasting Corporation ("CBC") and Power Broadcasting Inc. in May 2000. TRIO relaunched in June 2001 as "popular arts television" featuring the best in film, fashion, music, stage and popular culture. NWI is a 24-hour international news channel that presents hourly newscasts every hour as well as long-form contemporary magazine shows. As of December 31, 2001, Trio was available in over 14 million U.S. households and NWI was available in 10 million U.S. households.

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USA Cable's four networks derive virtually all of their revenues from two sources. The first is the per-subscriber fees paid by the cable operators and other distributors. The second is from the sale of advertising time within the programming carried on each of the networks.

**PROGRAMMING AND TRANSMISSION.** USA Network's program line-up features original series, produced exclusively for it (E.G., COMBAT MISSIONS, DEAD ZONE) and approximately 10-15 movies also produced exclusively for it each year. USA Network's programming also includes off-network series such as JAG, NASH BRIDGES, WALKER, TEXAS RANGER, LAW & ORDER: SPECIAL VICTIMS UNIT and LAW & ORDER: CRIMINAL INTENT, and major theatrically-released feature films. USA Network is home to the AFI LIFE ACHIEVEMENT AWARDS, ECO-CHALLENGE, exclusive midweek coverage of the U.S. OPEN TENNIS CHAMPIONSHIPS, THE WESTMINSTER KENNEL CLUB DOG SHOW, and early round coverage of THE MASTERS, the RYDER CUP and major PGA Tour golf events.

Sci Fi Channel's program lineup includes original programs, such as CROSSING OVER WITH JOHN EDWARD, FARSCAPE, STARGATE: SG-1, and RIVERWORLD. Additionally, Sci Fi features the best of futures past, with popular vintage series ranging from THE TWILIGHT ZONE to LOST IN SPACE to digitally-remastered episodes of the original STAR TREK series. The Channel continuously updates its library with popular sci-fi fare such as the new STRANGE WORLD, THE OUTER LIMITS, TALES FROM THE CRYPT, EARTH: FINAL CONFLICT, and BABYLON 5.

USA Network and Sci Fi Channel typically enter into long-term agreements for their major off-network series programming. Their original series commitments usually start with less than a full year's commitment (generally, a pilot episode), but contain options for further production over several years. These

original productions will include specials, series, and made-for-television movies. USA Network (and to a lesser extent, Sci Fi Channel) acquires theatrical films in both their "network" windows and "pre-syndication" windows. Under these arrangements, the acquisition of such rights is often concluded many years before the actual exhibition of the films begins on the network. Each network's original films start production less than a year prior to their initial exhibition. Both networks typically obtain the right to exhibit both their acquired theatrical films and original films numerous times over multiple year periods.

TRIO's programming includes exclusive original series and specials as well as acquired series. In 2002, TRIO plans to introduce its first original series, THE SCORE, from legendary producers Phil Ramone and Norman Lear. It also plans several original specials as well as the exclusive national coverage of the 2002 New Orleans Jazz and Heritage Festival. Acquired programs include acclaimed films, classic concerts, pop culture magazines "Media TV," "Hot Type" and "The Designers" as well as iconic, one-of-a-kind series like ROWAN & MARTIN'S LAUGH-IN and the award-winning SESSIONS AT WEST 54TH ST.

NWI's line-up is anchored at the top of every hour by the newscast, INTERNATIONAL NEWSFIRST, covering the latest news from around the world, including business, sports, weather and entertainment. Throughout the day NWI also features daily world newscasts presently licensed from broadcasters in Mexico, Russia, China, Germany, Japan and Canada, which are presented both in the original language and with an English translation. Under a long-term supply agreement, NWI's programming is produced by CBC in Canada.

USA Cable's four networks distribute their programming service on a 24-hour per day, seven-day per week basis. All four networks are distributed in all 50 states and Puerto Rico via satellite for distribution by cable television systems and direct broadcast satellite systems and for satellite antenna owners by means of satellite transponders owned or leased by USA Cable. Any cable television system or individual satellite dish owner in the United States and its territories and possessions equipped with standard satellite receiving facilities is capable of receiving USA Cable's services.

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USA Cable has the full-time use of four transponders on two domestic communications satellites. USA Cable has protection in the event of the failure of its transponders. When the carrier provides services to a customer on a "protected" basis, replacement transponders (I.E., spare or unassigned transponders) on the satellite may be used in the event the "protected" transponder fails. Should there be no replacement transponders available, the "protected" customer will displace a "preemptible" transponder customer on the same satellite. The carrier also maintains a protection satellite and should a satellite fail completely, all "protected" transponders would be moved to the protection satellite that is available on a "first fail, first served" basis.

A transponder failure that would necessitate a move to another transponder on the same satellite would not result in any significant interruption of service to those that receive USA Cable's programs. However, a failure that would necessitate a move to another satellite temporarily may affect the number of cable systems that receive USA Cable programs as well as other programming carried on the failed satellite, because of the need to install equipment or to reorient earth stations. The projected ends of life of the two satellites utilized by USA Cable are January 2005 and March 2006, respectively.

USA Cable's control of two different transponders on each of two different satellites would enable it to continue transmission of USA Network and Sci Fi Channel should either one of the satellites fail. USA Cable does not have this capability for Trio and NWI. Although USA Cable believes it is taking reasonable measures to ensure its continued satellite transmission capability, there can be no assurance that termination or interruption of satellite transmission will not occur. Such a termination or interruption of service by one or both of these satellites could have a material adverse effect on the operations and financial condition of USA. The availability of replacement satellites and transponders beyond current arrangements is dependent on a number of factors over which USA Cable has no control, including competition among prospective users for available transponders and the availability of satellite launching facilities for replacement satellites.

Each of the networks enters into agreements with cable operators and other distributors that agree to carry the programming service, generally as part of a package with other advertiser-supported programming services. These agreements are multi-year arrangements, and obligate the distributor to pay USA Cable a fee for each subscriber to the particular programming service. From time to time, a USA Cable network will be distributed on one or more cable systems without a distribution agreement in effect while the parties negotiate a new agreement, a process that may be protracted. While the cessation of carriage by a major cable operator would have a negative impact on the financial results of USA Cable, the Company has successfully managed the distribution agreement process in the past, and believes it will continue to do so.

USA through Studios USA produces and distributes television programs intended for initial exhibition on television and home video in both domestic and international markets. These productions include original programming for network television and first-run syndication through local television stations. Studios USA also is the exclusive domestic distributor of the Universal television library. In addition to the activities of Studios USA, other USA business units are also engaged in financing and distributing television programs for exhibition on USA Network and Sci Fi Channel.

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Studios USA and its predecessor companies have produced programming for network television since the early 1950s and Studios USA remains a major supplier of network and first-run syndication programming today, including LAW & ORDER, LAW & ORDER: SPECIAL VICTIMS UNIT, THE DISTRICT, THE JERRY SPRINGER SHOW and MAURY (hosted by Maury Povich). For the 2001/02 broadcast season, Studios USA launched a new series for CBS, THE AGENCY, and two new series for NBC from LAW & ORDER creator, Dick Wolf, entitled LAW & ORDER: CRIMINAL INTENT and CRIME & PUNISHMENT. LAW & ORDER: CRIMINAL INTENT and LAW & ORDER: SPECIAL VICTIMS UNIT have both been renewed for the 2002/03 season, while LAW & ORDER has been ordered through the 2004/05 season.

Television production generally includes four steps: development, pre-production, principal photography and post-production. The production/distribution cycle represents the period of time from development of the property through distribution and varies depending upon such factors as type of product and primary form of exhibition. Development of television programs and films begins with ideas and concepts of producers and writers, which form the basis of a television series or film. Producers and writers are frequently signed to term agreements generally providing Studios USA with exclusive use of their services for a term ranging from one to five years in the case of producers and one to two years in the case of writers. Term agreements are signed with such talent to develop network comedy and drama and first-run syndication programming. Term agreements are also signed with actors, binding them to Studios USA for a period of time during which Studios USA attempts to attach them to a series under development. These term agreements represent a significant investment for Studios USA.

In the case of network development, the ideas and concepts developed by producers and writers are presented to broadcast networks to receive their approval and financial participation in the development of a "pilot" that could possibly become a commitment from the network to license a minimum number of episodes based on the pilot. In general, the production cycle for network programming begins with the presentation of pilot concepts to network broadcasters in the fall of each year. Alternatively, Studios USA may elect to self-finance a project, and then market the completed script or produced pilot to the various networks. In any case, each May, networks release their fall schedules, committing to the series production of pilots, renewing existing programs and canceling others. Networks typically commit to seven to thirteen episodes for such new series with options to acquire additional episodes for a negotiated license fee and twenty-two episodes for a renewed series. Production on these series begins in June and continues through March, depending upon the network commitment. The network broadcast season runs from September through May. Studios USA incurs production costs throughout the production cycle up through completion of an episode while networks remit a portion of the license fees to Studios USA upon the beginning of episodic production and a portion upon delivery of episodes.

Several of Studios USA's subsidiary companies are individually and separately engaged in the development and/or production of television programs. Certain of these subsidiaries are also signatories to various collective bargaining agreements within the entertainment industry. The most significant of these are the agreements with the Writers Guild of America ("WGA"), the Directors Guild of America ("DGA") and the Screen Actors Guild ("SAG") which agreements typically have a term of several years and then require re-negotiation. The current WGA agreement expires on May 1, 2004, the DGA agreement expires on June 30, 2005 and the SAG agreement expires on June 30, 2004.

TELEVISION PRODUCTION CUSTOMERS. Studios USA produces television programs for the U.S. broadcast networks for prime time television exhibition. Certain television programs are initially licensed for network television exhibition in the U.S. and are simultaneously syndicated outside the U.S. Historically, Studios USA customers for network television product have been concentrated with the three oldest major U.S. television networks: ABC, CBS and NBC. In recent years, the Fox Broadcasting Company, UPN and the WB Network have created new networks, decreasing to some extent Studios USA's dependence on ABC, CBS and NBC and expanding the outlets for its network

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product. Programming consists of various weekly series, including the returning productions LAW & ORDER, LAW & ORDER: SPECIAL VICTIMS UNIT, THE DISTRICT, two new series from LAW & ORDER creator Dick Wolf, entitled LAW & ORDER: CRIMINAL INTENT and CRIME & PUNISHMENT on NBC and THE AGENCY on CBS. In the initial telecast season, the network license provides for the production of a minimum

number of episodes, with the network having the option to order additional episodes for both the current and future television seasons. The success of any one series may be influenced by the time period in which the network airs the series, the strength of the programs against which it competes, promotion of the series by the network and the overall commitment of the network to the series.

Generally, network licenses give the networks the exclusive right to broadcast new episodes of a given series for a period of time, generally from four to seven years and sometimes with further options thereafter. Recently, series produced by Studios USA have been distributed on a "dual platform" basis. In the case of LAW & ORDER: SPECIAL VICTIMS UNIT and LAW & ORDER: CRIMINAL INTENT, for example, the USA Network shares the initial exhibition "window" with NBC. Studios USA also produces television film product that is initially syndicated directly to independent television stations for airing throughout the broadcast day and to network affiliated stations for non-primetime airing.

Studios USA has also been distributing programs on a "dual platform" basis in cable and in syndication. For example, INVISIBLE MAN currently is distributed on a dual platform basis on the Sci Fi Channel and in first-run syndication, and commencing with the 2001-02 broadcast season, Sci Fi's CROSSING OVER WITH JOHN EDWARD also has been dual platformed on Sci Fi Channel and in first-run syndication.

Studios USA licenses television film product to independent stations and directly to network affiliated stations in return for either a cash license fee, barter or part-barter and part-cash. Barter syndication is the process whereby Studios USA obtains commitments from television stations to broadcast a program in certain agreed upon time periods. Studios USA retains advertising time in the program in lieu of receiving a cash license fee, and sells such retained advertising time for its own account to national advertisers at rates based on the projected number of viewers. By placing the program with television stations throughout the United States, an "ad hoc" network of stations is created to carry the program. The creation of this ad hoc network of stations, typically representing a penetration of at least 80% of total U.S. television households, enables Studios USA to sell the commercial advertising time through advertising agencies for sponsors desiring national coverage. The rates charged for this advertising time are typically lower than rates charged by U.S. broadcast networks for similar demographics since the networks coverage of the markets is generally greater. In order to create this ad hoc network of stations and reach 80% of total U.S. television households, Studios USA must syndicate its programming with stations that are owned and operated by the major broadcast networks and station groups, which are essentially entities which own many stations in the major broadcast markets across the United States. Without commitments from broadcast network stations and station groups, the necessary market penetration may not be achieved which may adversely affect the chances of success in the first-run syndication market.

Generally, television films produced for broadcast networks or barter syndication (or those financed by USA Cable Entertainment LLC for cable exhibition) provide license fees and/or advertising revenues that cover only a portion of the anticipated production costs. The recoverability of the balance of the production costs and the realization of profits, if any, is dependent upon the success of other exploitation including international syndication licenses, subsequent basic cable and domestic syndication licenses, releases in the home video market, merchandising and other uses. Pursuant to an agreement with Universal which will terminate upon consummation of the Vivendi Transaction, Studios USA has the right to include eligible product in Universal's international free television output and volume agreements with television broadcasters in major international territories. These agreements represent a substantial revenue source for Studios USA.

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DISTRIBUTION. In general, during the initial production years of a primetime series for the broadcast networks (E.G., seasons one to four), domestic network and international revenues fall short of production costs. As a result, the series will likely remain in a deficit position until sold in the domestic syndication market. The series will be available for airing in the off-network syndication market after a network's exclusivity period ends, typically the September following the completion of the third or fourth network season (or the subsequent season if the series were a mid-season order). For a successful series, the syndication sales process generally begins during the second or third network season. The price that a series will command in syndication is a function of supply and demand. Studios USA syndicated series are sold for cash and/or bartered services (I.E., advertising time), typically for a period of at least five years. Barter transactions have played an increasingly important role in the syndication process as they can represent a majority of the distributor's syndication revenue.

Studios USA distributes its current programming domestically. In addition, Studios USA is the exclusive domestic distributor of Universal's large television library, with programming dating back to the 1950s and including such series as ALFRED HITCHCOCK PRESENTS; THE VIRGINIAN; MARCUS WELBY, M.D.; DRAGNET; COLUMBO; KOJAK; THE ROCKFORD FILES; MURDER SHE WROTE; MAGNUM P.I.; MIAMI VICE; COACH; and NORTHERN EXPOSURE.

In addition, Universal currently has the exclusive right, with limited exceptions, to distribute all Studios USA programming internationally. In that regard, Universal has entered into several output and volume agreements with international television broadcasters that include programming produced by Studios USA, including agreements in Germany, France, Spain, Italy and the United Kingdom. These agreements generally provide that the licensor in a given territory shall have exclusive first-run free television rights to all Universal or Studios USA product, or alternatively, provide mechanisms by which the licensor generally commits to license a minimum number per year of first-run series and first-run television movies during a specified term in the territory. Pursuant to the terms of the current distribution arrangement between USA and Universal, USA's eligible programming will have the first right to participate in Universal's international output and volume agreements with international television broadcasters. This agreement will be terminated upon consummation of the Vivendi Transaction.

#### FILMED ENTERTAINMENT

USA Films primarily produces and distributes theatrical motion pictures. Eleven films were released theatrically in 2001, among them GOSFORD PARK and THE MAN WHO WASN'T THERE. GOSFORD PARK was nominated for seven academy awards, and won the award for best screenplay (original) and THE MAN WHO WASN'T THERE was nominated for one academy award. TRAFFIC, released initially on December 21, 2000, achieved North American box office of \$123,000,000, USA Films' highest grossing film to date. In 2001, USA Films was ranked third among independent theatrical distributors in market share, behind Miramax and New Line. In 2002, USA Films expects to distribute approximately ten films, including POSSESSION (a co-production with Warner Brothers), DELIVER US FROM EVA, FAR FROM HEAVEN and EIGHT WOMEN, directly or indirectly to theatrical exhibitors in the United States and internationally, to home video markets and to television.

#### REGULATION

USA and its subsidiaries are subject to various laws and regulations. The following summary does not purport to be a complete discussion of all enacted or pending regulations and policies that may affect USA's businesses. This summary focuses primarily on the enacted federal and state legislation specific to USA's businesses.

#### TELEPHONE SALES REGULATION

Telephone sales practices are regulated at both the Federal and state level. The rules of the Federal Communications Commission (the "FCC") under the Federal Telephone Consumer Protection

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Act of 1991 (the "TCPA") prohibit the initiation of telephone solicitations to residential subscribers before 8:00 a.m. or after 9:00 p.m. (local time at the called party's location), prohibit the use of automated telephone dialing equipment to call certain telephone numbers, and contain certain disclosure requirements (including a requirement that the caller must give a telephone number or address, during the call, where the seller can be reached). In addition, the FCC rules require teleservicers to have procedures in place to maintain lists of residential customers who do not want to receive telephone solicitations to add customers to that list if they so request, and to avoid making calls to those customers. The FCC rules also prohibit the use of pre-recorded or artificial voice calls to consumers (with limited exceptions) and advertising via telephone facsimile machines. The FCC, private individuals and state attorneys general may seek both injunctive and monetary relief for violation of these FCC rules. Monetary damages may be awarded for the greater of actual damages or \$1,500 per offense for willful violation of these rules.

The Federal Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994 (the "TCFAPA") broadly authorizes the Federal Trade Commission (the "FTC") to issue regulations prohibiting misrepresentation in telephone sales. In August 1995, the FTC issued rules under the TCFAPA. These rules set forth disclosure requirements for telemarketers when placing calls, prohibit deceptive telemarketing acts or practices during solicitation, provide guidelines on collecting payments by check and credit cards, provide restrictions on abusive telephone solicitation practices and promulgate certain record keeping requirements. The FTC, private individuals and state attorneys general may seek both injunctive and monetary damages for violation of these FTC rules. Penalties may range up to \$10,000 for each intentional violation of these rules.

On January 22, 2002, the FTC proposed to amend its telemarketing rules to, among other things, (1) establish a centralized, national "do not call" registry to enable consumers to eliminate most telemarketing calls by calling a toll-free number and adding their phone number to the registry; (2) prohibit telemarketers from receiving a consumer's credit card or other account number from anyone but the consumer, or from improperly sharing it with anyone else for use in telemarketing; and (3) prohibit telemarketers from blocking or otherwise subverting "Caller ID" systems.

In addition to permitting the FTC, private individuals and state attorneys general to seek both injunctive and monetary damages for violation of the FTC's



Telemarketing Sales Rule, the new rules, like the old rules, would not prohibit state attorneys general from also seeking remedies under state law.

Written comments on the FTC proposed amendments to the Telemarketing Sales Rule are due on March 29, 2002. The proposed amendments, if enacted, would likely become effective within six to twelve months from that date.

USA believes that its subsidiaries subject to these regulations, principally PRC, are in compliance with the TCPA and FCC rules thereunder and with the FTC's rules under the TCFAPA. USA is unable to predict that its effects, if any, on its revenues and the manner in which it does business if either or both of the FTC and FCC revise their regulations as now proposed.

Most states have enacted or are considering legislation to regulate telephone solicitations. For example, some states require telemarketers to be licensed and bonded by state regulatory agencies prior to soliciting purchasers within that state. Additionally, telephone sales in many states cannot be final unless a written contract is delivered to, and signed and returned by the buyer and may be canceled within three business days. Some states also have enacted, or are considering enacting, state-wide "do-not-call" lists, the violation of which would subject the telemarketer to steep fines. Penalties for violation of these state telemarketing regulations vary from state to state and include civil as well as criminal penalties. From time to time, bills are introduced in Congress that, if enacted, would regulate the use of credit information, and telemarketing. Several of such bills are now pending.

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## REGULATION OF THE INTERNET

The following summary does not purport to be a complete discussion of all enacted or pending regulations and policies that may affect USA's businesses as they relate to the Internet. This summary focuses primarily on the enacted federal, state and international legislation specific to online businesses such as those conducted by certain of USA's subsidiaries. For further information concerning the nature and extent of federal, state and international regulation of online businesses, please review public notices and rulings of the U.S. Congress, state and local legislature and international bodies.

Due to the growth of the Internet and online commerce, coupled with publicity regarding Internet fraud, new laws and regulations are continually being considered (at the federal, state and international level) regarding property ownership, sales and other taxes, pricing and content, advertising, intellectual property rights, libel, user privacy, and information security. New laws or different applications of existing laws would likely impose additional burdens on companies conducting business online and may decrease the growth of the Internet or commercial online services. In turn, this could decrease the demand for products and services offered by certain of USA's subsidiaries or increase their cost of doing business.

**TAXES.** Federal legislation imposing limitations on the ability of states to impose taxes on Internet-based sales was enacted in 1998 and extended in 2001. The Internet Tax Non-Disclosure Act, as this legislation is known, exempts certain types of sales transactions conducted over the Internet from multiple or discriminatory state and local taxation through November 1, 2003. It is possible this legislation will not be renewed when it terminates. Failure to renew this legislation could allow state and local governments to impose taxes on Internet-based sales, and these taxes could decrease the demand for products and services offered by certain of USA's subsidiaries or increase their cost of operations.

**PRIVACY.** Customers provide USA's various businesses with personally identifiable information (PII) that has been specifically and voluntarily given. PII includes information that can identify a customer as a specific individual, such as name, phone number, or e-mail address. This information is used primarily for the purpose of responding to and fulfilling customer requests for the products and services offered by USA's subsidiaries. USA cannot predict whether any of the proposed privacy legislation currently pending will be enacted and the effect, if any, it would have on USA's businesses.

**CURRENT US FEDERAL PRIVACY REGULATION.** The federal government has enacted and is considering laws and regulations relating to consumer privacy. The most far-reaching of these current laws are focused on financial institutions, health care providers, and companies that voluntarily solicit information from children. The "Unsolicited Electronic Mail Act of 1999" has been enacted to protect individuals, families, and internet service providers from unsolicited and unwanted electronic mail, commonly referred to as spamming. Additionally, the Federal Trade Commission has a role in consumer privacy protection and is involved with related enforcement activities.

**CURRENT STATE PRIVACY REGULATION.** Most states have enacted or are considering legislation to regulate consumer information on the Internet. Much of this legislation is focused on financial institutions and health care providers. The legislation that has become state law is a small percentage of the number still pending, and is similar to what has been enacted at the federal level.

CURRENT INTERNATIONAL PRIVACY REGULATION. The primary international privacy regulations to which certain of USA's international operations are subject are Canada's Personal Information and Protection of Electronic Documents Act and the European Union Data Protection Directive:

- Canada: The Personal Information and Protection of Electronic Documents Act (PIPEDA) provides Canadian residents with privacy protections in regard to transactions with businesses and organizations in the private sector. PIPEDA recognizes the individual's right to privacy of their personal information. Additionally, it recognizes the need of organizations to collect, use

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and share personal information and establishes rules for handling personal information. On January 1, 2004, PIPEDA extends to the collection, use, or disclosure of personal information in the course of any commercial activity within a province.

- Europe: Individual countries within the European Union (EU) have specific regulations related to the transborder dataflow of personal information (i.e., sending personal information from one country to another). The EU Data Protection Directive encompasses many of these individual regulations and requires companies doing business in EU member states to comply with its standards. It provides for specific regulations requiring all non-EU countries doing business with EU member states to provide adequate data privacy protection when sending personal data from any of the EU member states.

Effective July 25, 2000, the EU member states adopted a safe harbor arrangement that provides that U.S. organizations can adopt procedures that comply with European privacy regulations and can certify their compliance through notice to the U.S. Department of Commerce. Participation in the safe harbor is voluntary and indicates that the organization provides an adequate level of privacy protection and qualifies the company to receive data from EU member states. A company does not have to join the safe harbor to be in compliance with the EU Data Protection Directive. It may choose instead to seek approval for the data transfers from the specific individual. U.S. companies that avail themselves of the safe harbor arrangement are subject to oversight and possible enforcement actions by the Federal Trade Commission or the Department of Transportation (which has authority over "ticket agents") if they violate the provisions of their certification. Such violations may be found to be unfair and deceptive practices.

Currently, few laws and regulations apply directly to the Internet and commercial online services and, to the extent such laws exist or apply to certain of USA's businesses, USA believes it is in compliance with all of them.

#### TRAVEL INDUSTRY REGULATION

USA's travel related businesses must comply with laws and regulations relating to the travel industry and the sale of travel services. These include registering with various states as a seller of travel, complying with certain disclosure requirements and participating in state restitution funds. Both the Federal Trade Commission and the Department of Transportation take the position that their regulations prohibiting unfair and deceptive advertising practices apply to USA's travel businesses. On December 3, 2001, Expedia entered into a Consent Order with the Department of Transportation that resolved an allegation that Expedia's Fare Calendar feature did not properly include airline fuel surcharges in its advertised fare. Expedia modified this feature, and the Consent Order acknowledges that Expedia has corrected the problem. No other enforcement actions are pending.

In addition, USA's travel businesses are indirectly affected by regulatory and legal uncertainties affecting travel suppliers and computer reservation systems. The U.S. Department of Transportation is considering applying rules that are similar to its computer reservations systems rules to online travel services. The current rules are effective through March 31, 2003. If the U.S. Department of Transportation elects to regulate online travel service providers' fare displays, it may limit the ability of USA's businesses to merchandise air travel.

#### COMMUNICATIONS INDUSTRY

The communications industry, including the operation of television broadcast stations, cable television systems, satellite distribution systems and other multichannel distribution systems and, in some respects, vertically integrated cable programmers, is subject to substantial federal regulation, particularly under the Communications Act of 1934, as amended (the "Communications Act"), and the rules and regulations promulgated thereunder by the Federal Communications Commission ("FCC").

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CABLE PROGRAMMING. The Cable Television Consumer Protection and Competition

Act of 1992 (the "1992 Act") prohibits a cable operator from engaging in unfair methods of competition that prevent or significantly hinder competing multichannel video programming distributors from providing satellite-delivered programming to their subscribers. The FCC has adopted regulations to (1) prevent a cable operator that has an attributable interest, including voting or non-voting stock ownership of at least 5%, in a programming vendor from exercising improper influence over the programming vendor in the latter's dealings with competitors to cable; and (2) to prevent a programmer in which a cable operator has an attributable interest from discriminating among cable operators and other multichannel video programming distributors, including other cable operators.

Cable television systems are also subject to regulation pursuant to franchises granted by a municipality or other state or local governmental entity.

**BROADCAST TELEVISION LICENSE GRANT AND RENEWAL.** The Communications Act provides that a broadcast license, including the licenses controlled by USA affiliates, may be granted to any applicant upon a finding that the public interest, convenience and necessity would be served thereby, subject to limitations. Television stations operate according to broadcasting licenses that are usually granted by the FCC for a maximum permitted term of eight years, subject to renewal upon application to the FCC.

**DIGITAL TELEVISION.** The FCC has taken a number of steps to implement digital television service (including high-definition television) in the United States, including the adoption of a final table of digital channel allotments and rules for the implementation of digital television. The table of digital allotments provides each existing television station licensee or permittee with a second broadcast channel to be used during the transition to digital television, conditioned upon the surrender of one of the channels at the end of the digital television transition period. The FCC has set a target date of May 2002 for completion of construction of digital television facilities and 2006 for expiration of the digital transition period, subject to biennial reviews to evaluate the progress of digital television, including the rate of consumer acceptance.

Material developments in the DTV roll-out could have an impact on Home Shopping Network's business. For example, in the future, low-power television affiliates of Home Shopping Network may have to cease operations due to irremediable interference to or from new digital television allocations.

**MUST-CARRY/RETRANSMISSION CONSENT.** Full-power television broadcasters are required to make triennial elections to exercise either "must-carry" or "retransmission consent" rights with respect to their carriage by cable systems in each broadcaster's local market. By electing must-carry rights, a television broadcaster demands carriage on a specified channel on cable systems within its television market (defined by Nielsen as a Designated Market Area (DMA)). Alternatively, if a television broadcaster chooses to exercise retransmission consent rights, it can prohibit cable systems from carrying its signal or grant the appropriate cable system the authority to retransmit the broadcast signal for a fee or other consideration. Home Shopping Network is affected by the must-carry rules in that cable systems have fewer channels available for cable programming services, such as Home Shopping Network, because of mandatory carriage requirements. The FCC currently is conducting a rulemaking proceeding to determine whether, in certain circumstances, it should require carriage of a television station's digital and analog signals.

**SHVIA.** The Satellite Home Viewer Improvement Act ("SHVIA"), which was enacted on November 29, 1999 provides, among other things, for a statutory copyright license to enable satellite carriers to retransmit local television broadcast stations into the stations' respective local markets. SHVIA does not require satellite carriers to deliver local stations into their local market--so-called "local-into-local" service. However, as of January 1, 2002, a satellite carrier that chooses to carry at least one local television broadcast station signal pursuant to the statutory copyright must also carry any other full power local television station in the market that requests carriage. In certain instances, a satellite carrier is not required to carry duplicative signals of commercial television stations serving the

same local market. Satellite carriers will be prohibited from providing local-into-local service without the consent or must-carry election of a station, but stations will be obligated to engage in good faith retransmission consent negotiations with the carriers.

**COMMUNITY BROADCASTERS PROTECTION ACT.** The Community Broadcasters Protection Act of 1999 (CBPA) established a new Class A television status that offers certain protections to "qualifying" low power television (LPTV) stations from full-power television service. In order to qualify for Class A status, an LPTV station must meet specific criteria contained in the CBPA. Alternatively, the CBPA allows the FCC to grant Class A status to any LPTV station if the FCC finds that such a grant would serve the public interest, convenience and necessity.

REGULATIONS APPLICABLE TO BROADCAST STATIONS AND CABLE SYSTEMS. Cable television operators also are subject to regulations concerning the commercial limits in children's programming, and closed captioning. The FCC's closed captioning rules, which became effective January 1, 1998, provide for the phased implementation, beginning in the year 2000, of a universal on-screen captioning requirement with respect to the vast majority of video programming. The captioning requirement applies to programming transmitted by broadcast television stations and cable programming networks.

The FCC has adopted rules that take effect as of April 1, 2002 requiring certain cable networks, among others, to provide an oral description of the video portion of certain programming to benefit the visually impaired. USA Network is one of the cable networks that may need to comply with these regulations.

As part of a directive in the Telecommunications Act, the broadcast and cable television industries have adopted, and the FCC has approved a voluntary content ratings system which, when used in conjunction with so-called "V-Chip" technology, would permit the blocking of programs with a common rating. The FCC directed that all television receiver models with picture screens 13 inches or greater be equipped with "V-Chip" technology under a phased implementation that began on July 1, 1999. USA cannot predict how changes in the implementation of the ratings system and "V-Chip" technology will affect its business.

#### OTHER REGULATORY CONSIDERATIONS.

USA and its subsidiaries are also subject to varying degrees of other government regulation. Ticketmaster is regulated by certain state and local regulations, including, but not limited to, a law in Georgia that establishes maximum convenience charges on tickets for certain sporting events. Other legislation that could affect the way Ticketmaster does business, including legislation that would regulate the amount of convenience charges and order processing fees, are introduced from time to time in federal, state and local legislative bodies. Ticketmaster is unable to predict whether any such legislation will be adopted and, if so, the impact thereof on its business.

Ticketmaster has recently introduced, and intends to continue to introduce in the future, new products and services. Many of these products and services have either never previously existed or have developed rapidly due to the fast rate of change in Internet-based business models. As a result, the impact of existing laws and regulations on these new products and services is uncertain. Ticketmaster believes that its new products and services comply with existing laws and regulations, but there can be no assurance that such laws and regulations will not in the future be applied to these new products and services in unforeseen ways. As such, the impact of the application of such laws and regulations on certain of Ticketmaster's businesses cannot be foreseen and may have a material adverse effect on such businesses and the applicable products and services.

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Ticketmaster's products and services are subject to various sales and use tax provisions under applicable State and local law. The application of such tax provisions to Ticketmaster's historical and new products and services is subject to interpretations by the applicable taxing authority. Ticketmaster believes it is compliant with these tax provisions, but there can be no assurance that taxing authorities will not take a contrary position and that such position will not result in a material adverse effect to Ticketmaster's business, financial condition and results of operations.

The industries served by PRC are also subject to varying degrees of government regulation, including state qualification and licensing requirements. PRC works closely with its clients and their advisors to develop the scripts to be used by PRC in connection with making customer contacts and to comply with any state qualifications and/or licensing necessary to perform the services for clients. PRC generally requires its clients to indemnify PRC against claims and expenses arising with respect to PRC's services performed on its clients' behalf.

Increasing concern over consumer privacy, including regulations relating to the use of the Internet with customer care and service, has led to the introduction from time to time of proposed legislation, including at the federal level, that could impact the Company's businesses. The Company cannot predict whether any of these types of legislation will be enacted and what effect, if any, it would have on the Company and its subsidiaries.

#### TRADEMARKS, TRADENAMES, COPYRIGHTS AND DOMAIN NAMES

USA regards its domain names and similar intellectual property as critical to its success. USA relies on a combination of laws and contractual restrictions with its employees, customers, suppliers, affiliates and others to establish and protect its proprietary rights. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our intellectual property without authorization. In addition, there can be no assurance that others will not independently develop substantially similar intellectual property. USA has registered and continues to register, when appropriate, its trade and service

marks as they are developed and used, and USA vigorously protects its trade and service marks. However, effective trademark protection may not be available or may not be sought by us in every country in which our products and services are made available. Our failure to protect our intellectual property in a meaningful manner could materially adversely affect our business or result in erosion of our brand names.

From time to time we may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the trademarks and other intellectual property rights of third parties by our company. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could materially harm our business.

## COMPETITION

### USA INTERACTIVE GROUP

#### HOME SHOPPING NETWORK

The Home Shopping Network business operates in a highly competitive environment. It is in direct competition with traditional retail merchandisers ranging from large department stores to specialty shops, other electronic retailers, direct marketing retailers such as mail order companies, companies that sell from catalogs, other discount retailers and companies that market through computer technology.

Home Shopping Network competes with certain other companies which have an affiliation or common ownership with cable operators, which now market merchandise by means of live television. QVC, a competitor of HSN, is controlled by Comcast Corporation. Liberty, which holds a substantial

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equity interest in USA and USANi LLC, currently owns 43% of QVC, and has entered into a stockholders agreement with Comcast Corporation under which Comcast Corporation controls the day-to-day operations of QVC. A number of other entities are engaged in direct retail sales businesses that utilize television in some form and which target the same markets in which Home Shopping Network operates. Some competitors of the Home Shopping Network business are larger and more diversified than USA.

**VIEWERSHIP.** The Home Shopping Network business also competes for access to its customers and for audience share and revenue with broadcasters and conventional forms of entertainment and information, such as programming for network and independent broadcast television stations, basic and pay cable television services, satellite master antenna systems, home satellite dishes and home entertainment centers, newspapers, radio, magazines, outdoor advertising, transit advertising and direct mail. In particular, the price and availability of programming for cable television systems affect the availability of these channels for HSN, America's Store and HSE programming and the compensation which must be paid to cable operators for carriage of HSN, America's Store and HSE programming.

**CHANNEL CAPACITY.** In addition, due to a number of factors, including the development of cable operator owned programming, the competition for channel capacity has substantially increased. With the advent of digital cable and new compression technologies on the horizon, this competition for channel capacity may substantially decrease, although additional competitors may have the opportunity to enter the marketplace. No prediction can be made with respect to the viability of these technologies or the extent to which they will ultimately impact the availability of channel capacity. A substantial portion of USA's businesses, including HSN and USA Cable, are affected by changes in channel capacity and competition among programming providers for available channel capacity.

### HSN INTERNATIONAL

HSN competes internationally with traditional retailers, direct marketing retailers and others electronic retailers. There are operators throughout the world that either offer 24-hour electronic retailing or are using infomercials and small amount of live programming that compete with HSN's international operations.

### HSN.COM

Home Shopping Network operates HSN.com, an Internet retailing service that competes with numerous bricks-and-mortar retailers, other online and offline retail operations, and catalog merchants. A number of the online competitors have a larger user base and have expertise in developing online commerce. USA believes that the principal competitive factors in this market are scale, selection of goods, customer service, reliability of delivery, brand recognition, convenience and accessibility, price, quality of search tools and

system reliability.

## TICKETING OPERATIONS

Ticketmaster's ticketing business, including ticketmaster.com, faces competition and potential competition from other national and regional ticketing service companies and entertainment organizations with ticketing capabilities, as well as from its clients who may elect to fulfill ticketing distribution and management functions through their own systems. Not all facilities, promoters and other potential clients use the services of an automated ticketing company, choosing instead to distribute their tickets through their own internal box offices or other distribution channels. Accordingly, Ticketmaster competes with the facilities, promoters and other potential clients for the right to distribute their tickets at retail outlets, by telephone and on the Internet.

Other companies compete with Ticketmaster by selling stand-alone automated ticketing systems to enable the facilities to do their own ticketing. Several of Ticketmaster's competitors have operations in multiple locations, while others compete principally in one specific geographic location. Ticketmaster

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experiences substantial competition for potential client accounts and renewals of contracts on a regular basis. Accordingly, there can be no assurance that prospective or renewal clients will enter into contracts with Ticketmaster rather than Ticketmaster's competitors (including clients that choose to self-distribute with, or without, the assistance of the numerous companies that support self-distribution). Ticketmaster competes on the basis of products and service provided, capability of the ticketing system, its distribution network, reliability and price.

As an alternative to purchasing tickets through Ticketmaster, ticket purchasers generally may purchase tickets from the facility's box office at which an event will be held or by season, subscription or group sales directly from the venue or promoter of the event. Although Ticketmaster's clients may process sales of these tickets through the Ticketmaster System, Ticketmaster derives no convenience charge revenue from the ticket purchasers with respect to those ticket purchases.

Ticketmaster believes that the principal competitive factors for all its services, including its ticketing, personals and city guide businesses, include: depth, quality and comprehensiveness of content; ease of use; distribution; search capability; and brand recognition.

## EXPEDIA

The travel planning services market is rapidly evolving and intensely competitive. Expedia competes on the basis of feature differentiation and usability, which are products of its technology leadership; breadth and value of travel products and services offered; customer service; and quality of travel planning content and advice.

In the United States, Expedia competes with other travel planning services providers offering inventory from multiple suppliers, and with suppliers selling their own inventory direct to consumers. Expedia also competes with supplier-owned sites, as well as consortiums of suppliers such as Orbitz, Hotwire and Hotel Distribution Systems. Expedia competes with predominantly-offline travel agencies and entities that aggregate fares from multiple web sites and/or suppliers. Expedia also competes with many of these same parties and others in the provision of private-label booking services. Internationally, Expedia competes with a set of participants that varies on a market-by-market basis.

## HOTEL RESERVATIONS

The market for travel products and services, including lodging accommodations, is intensely competitive and is easy to enter. Hotel Reservations Network believes that competition for lodging accommodations is based predominantly on price, selection and availability of lodging alternatives, selection of destination markets, ease of use, customer service, reliability and travel-related content.

Hotel Reservations Network competes against other consolidators of lodging accommodations, hotels, travel agencies and other online and offline travel services. As a distributor, Hotel Reservations Networks is at risk that the hotel owners will favor other distributors (or self-distribution) at the expense of Hotel Reservations Network. Currently, most hotels sell their services through travel agencies, travel wholesalers or directly to customers, mainly by telephone. Increasingly, major hotels are offering travel products and services directly to consumers through their own websites. USA believes that this trend will continue.

Hotel Reservations Network also competes against numerous travel-related websites. Although Hotel Reservations Networks currently has agreements with some of these websites under which Hotel Reservations Network's booking engine is prominently displayed on and integrated into these websites, there can be no

assurance that these affiliations will continue in the future or that they will continue to be beneficial to Hotel Reservations Network's business and Hotel Reservations Network may find itself in competition with these affiliates. In addition, in February 2002, five major hotel chains and Pegasus Solutions announced plans to market lodging accommodations over the Internet through multiple websites using a "merchant" business model similar to Hotel Reservations Network's business model.

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As demand for online travel products and services grows, Hotel Reservations Network believes that companies already involved in the online travel products and services industry, as well as traditional travel suppliers and travel agencies, will increase their efforts to develop services that more closely resemble Hotel Reservations Network's online products and services.

In addition, some of Hotel Reservations Network's current and potential competitors have greater brand recognition, longer operating histories, larger customer bases and significantly greater financial, marketing and other resources than Hotel Reservations Network and may enter into strategic or commercial relationships with larger, more established and well-financed companies. Some of Hotel Reservations Network's competitors may be able to secure services and products from travel suppliers on more favorable terms, devote greater resources to marketing and promotional campaigns and devote substantially more resources to website and systems development than Hotel Reservations Network. New technologies and the continued enhancement of existing technologies also may increase competitive pressures on Hotel Reservations Network. There can be no assurance that Hotel Reservations Network will be able to compete successfully against current and future competitors or address increased competitive pressures.

#### TELESERVICES

The consumer care industry in which PRC operates is very competitive and highly fragmented. Competitors range in size from very small firms offering specialized applications and short-term projects, to large independent and international firms and the in-house operations of many clients and potential clients. In-house interactive customer communications organizations comprise the largest segment of the industry. The industry includes a number of non-captive interactive customer service operations. In addition, PRC also competes with large technology and consulting firms in situations where it has not partnered with such firms with respect to a potential business opportunity. PRC believes that the principal competitive factors in its industry are a reputation for quality, sales and marketing results, price, technological expertise and application, and the ability to promptly provide clients with customized and creative solutions and approaches to their customer service and marketing needs. PRC believes that it competes favorably with other companies with respect to the foregoing factors for large-scale, ongoing customer service and marketing programs where the principal competitive factor is quality. PRC has not generally chosen to compete for high-volume outbound marketing programs where the principal competitive factor is price. Certain competitors may have capabilities and resources greater than PRC's which may be a competitive disadvantage in bidding for very large programs.

#### MATCH.COM

The dating services business is very competitive. Match.com's and One & Only Network's primary competitors include the personals sections of newspapers and magazines, free dating services, other pay-dating services, including local online offerings from stand-alone dating websites or local media.

#### CITYSEARCH AND RELATED

The markets for local content and services are highly competitive and diverse. Citysearch's primary competitors include online providers of local content, numerous search engines and other site aggregation companies, media, telecommunications and cable companies, Internet service providers and niche competitors which focus on a specific category or geography and compete with specific content offerings provided by Citysearch, paper city guides and listings contained in various newspapers and magazines. Many of Ticketmaster's city guide competitors have greater financial and marketing resources than it has and may have significant competitive advantages through other lines of business and existing business relationships. Furthermore, additional major media and other companies with financial and other resources greater than Ticketmaster may introduce new Internet products addressing the local interactive content and service business in the future.

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#### USA ELECTRONIC COMMERCE SOLUTIONS

ECS competes with a number of companies in providing end-to-end commerce solutions to third parties. ECS also competes with companies that provide certain portions of its operations, including fulfillment and customer service providers, transaction enablers and consulting firms. In addition, as demand for electronic retailing grows, other service providers may increase their efforts

to develop services that compete with those offered by ECS. ECS believes that the principal competitive factors in its business are scalability, depth of e-commerce offering and ability to offer end-to-end solutions. There can be no assurance that ECS will be able to compete successfully against current and future competitors.

#### STYLECLICK

Styleclick faces competition from companies that currently, or could readily, provide e-commerce services similar to those offered by Styleclick. Certain of Styleclick's competitors may be advantaged as compared to Styleclick with respect to technology, client lists, scale and access to capital. In addition, Styleclick potentially faces competition from companies that possess the technology and expertise necessary to effectively operate large-scale e-commerce businesses, but that may not currently offer such services to third-parties. Styleclick's challenges in meeting its obligations to its existing customers may make it difficult for Styleclick to attract or adequately service new customers. Styleclick believes that the principal competitive factors in this market are selection of goods, customer service, reliability of delivery, brand recognition, website convenience and accessibility, price, quality of search tools and system reliability. There can be no assurance that Styleclick will be able to compete successfully against current and future competitors.

#### USA ENTERTAINMENT

##### CABLE AND STUDIOS

###### USA CABLE

USA Cable competes for access to its customers and for audience share and revenue with broadcasters and other forms of entertainment. Cable operators and other distributors only contract to carry a limited number of the available networks. Therefore, they may decide not to offer a particular network to their subscribers, or they may package a network with other networks in a manner that only a portion of their subscribers will receive the service (for example, by charging an additional fee). In addition, there has been increased consolidation among cable operators, so that USA Cable's networks have become increasingly subject to the carriage decisions made by a small number of operators. This consolidation may reduce the per-subscriber fees received from cable operators in the future. The consolidation also means that the loss by any network of any one or more of its major distributors could have a material adverse impact on that network. The competition for advertising revenues also has become more intense as the number of television networks has increased. While many factors affect advertising rates, ultimately they are dependent on the numbers and types of viewers that a program attracts. As more networks compete for viewers, it becomes increasingly difficult to increase or even maintain a network's number of viewers. Moreover, to do so may require a network to spend significantly greater amounts of money on programming. Therefore, greater pressure may be placed on the networks' ability to maintain advertising revenue levels and to try and generate increases. Both USA Cable and Studios USA are affected by competition for advertising revenues. The competition for third-party programming is likely to increase. Many networks, including USA Cable's networks, are affiliated with companies that produce programming. This programming is becoming increasingly difficult to acquire by third parties or unaffiliated networks. As a result, there is likely to be strong competition to acquire remaining programming.

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###### STUDIOS USA

PROGRAMMING. Studios USA operates in a highly competitive environment. The production and distribution of television programming are highly competitive businesses. Television programs produced by Studios USA compete with all other forms of network and syndication programming, as well as other forms of entertainment. Competition is also faced from other major television studios and independent producers for creative talent, writers and producers. The profitability of Studios USA is dependent upon factors such as public taste that is volatile, shifts in demand, economic conditions and technological developments.

In 1995, the FCC repealed its financial interest and syndication rules ("fin-syn rules"). The fin-syn rules were adopted in 1970 to limit television network control over television programming and to foster the development of diverse programming sources. The rules had restricted the ability of the three established, major U.S. television networks (I.E., ABC, CBS and NBC) to own and syndicate television programming. The repeal of the rules has increased in-house production of television programming for the networks' own use. As a result of the repeal of the fin-syn rules, the industry has become increasingly vertically integrated, with all of the major broadcast networks, with the exception of NBC, being aligned with a major studio. In addition, the three major broadcast networks have their own in-house or affiliated production units. There can be no assurance that these changes will not have a negative impact on Studios USA's business as its network customers are now able to choose between their own product and Studios USA's product in making programming decisions. Nonetheless,



up through the current 2001/02 season, Studios USA has continued to remain one of the primary independent suppliers of U.S. television programming.

## FILMED ENTERTAINMENT

USA Films operates in a highly competitive environment as the production and distribution of theatrical motion pictures and home videos are highly competitive businesses. USA Films competes with other independent distributors and the major film studios as well as other forms of entertainment and leisure time activities. Competition has increased notably in the "independent" film sector due to the emergence of new production and distribution entities (some of which are subsidiaries of the major film studios) and increased production and marketing costs.

## EMPLOYEES

As of the close of business on December 31, 2001, USA and its subsidiaries employed approximately 16,900 full-time employees, with approximately 1,060 employees employed by USA Cable and Studios USA, 4,470 employees employed by Electronic Retailing, 720 employees employed by Hotel Reservations, 60 employees employed by Styleclick, 110 employees employed by USA Films, 4,620 employees employed by Ticketmaster, including Citysearch and Match.com, 5,790 employees employed by Teleservices and 70 employees employed by USA Electronic Commerce Solutions. Of these employees, 5,660 were employed by USA through USANi LLC. In addition, as of December 31, 2001, Expedia employed 896 full-time employees. USA believes that it generally has good employee relationships, including with employees represented by unions and guilds.

## ITEM 2. PROPERTIES

USA's facilities for its management and operations are generally adequate for its current and anticipated future needs. USA's facilities generally consist of executive and administrative offices, fulfillment facilities, warehouses, operations centers, call centers, television production and distribution facilities, satellite transponder sites and sales offices.

All of USA's leases are at prevailing market (or "most favorable") rates and, except as noted, with unaffiliated parties. USA believes that the duration of each lease is adequate. USA believes that its

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principal properties, whether owned or leased, are adequate for the purposes for which they are used and are suitably maintained for such purposes. Most of the office/studio space is substantially utilized, and where significant excess space exists, USA leases or subleases such space to the extent possible. USA anticipates no future problems in renewing or obtaining suitable leases for its principal properties.

## CORPORATE

USA maintains its principal executive offices at Carnegie Hall Tower, 152 West 57th Street, New York, New York that consists of approximately 29,850 square feet leased by USA through October 30, 2005 and an additional 6,100 square feet leased by USA through August 31, 2008.

## USA INTERACTIVE GROUP

### HOME SHOPPING NETWORK

Home Shopping Network owns an approximately 480,000 square foot facility in St. Petersburg, Florida, which houses its Home Shopping Network television studios, broadcast facilities, administrative offices and training facilities. Home Shopping Network also leases 40,000 square feet of modular buildings located at this facility.

Home Shopping Network owns two warehouse-type facilities totaling approximately 84,000 square feet near Home Shopping Network's main campus in St. Petersburg, Florida. These facilities have been used for returns processing, retail distribution and general storage.

Home Shopping Network leases a 41,000 square foot facility in Clearwater, Florida for its video and post-production operations. Home Shopping Network expects to terminate this lease and vacate the facility in 2002.

Home Shopping Network owns and operates a warehouse consisting of 163,000 square feet located in Waterloo, Iowa, which is used as a fulfillment center. In addition, Home Shopping Network rents additional space in Waterloo, Iowa consisting of 50,000 square feet.

Home Shopping Network owns and operates a warehouse located in Salem, Virginia, consisting of approximately 780,000 square feet, which is used as a fulfillment center. In addition, Home Shopping Network leases one additional location in Salem, Virginia consisting of 194,750 square feet and two additional locations in Roanoke, Virginia consisting of 70,000 square feet and 383,000 square feet. Home Shopping Network plans to terminate the lease for the 70,000

square foot location and vacate the space in 2002.

Home Shopping Network leases 450,000 square feet of a 817,750 square foot warehouse in Fontana, California, which it opened as an additional fulfillment facility in 2001. The remainder of this facility is leased by other subsidiaries of USA.

Home Shopping Network's retail outlet subsidiary leases three retail stores in the Tampa Bay area and one in the Orlando areas, totaling approximately 86,425 square feet.

HSN INTERNATIONAL

Home Shopping Europe--Germany owns no real estate in Germany, although it leases approximately 3,200 square meters in Ismaning, Germany (outside Munich) for offices and studios.

TICKETMASTER

Ticketmaster's corporate offices are housed at 3701 Wilshire Boulevard, Los Angeles, California, where it currently leases approximately 73,700 square feet under leases expiring in 2003 and 2006. Ticketmaster leases office space in various cities throughout the United States, the United Kingdom,

Ireland, Canada, Norway, Germany and France. As of December 31, 2001, Ticketmaster had approximately 835,500 square feet of space under lease, with scheduled expirations ranging from April 2002 to June 2014.

Ticketmaster owns an operating office in Vancouver, Canada. Ticketmaster owned an office building in West Hollywood, California, which it sold to USA on February 1, 2001.

EXPEDIA

Expedia's headquarters are located in Bellevue, Washington in a leased space consisting of approximately 108,000 square feet. The leases for these spaces expire from 2003 to 2007. Expedia also leases space in Tacoma, Washington, Ft. Lauderdale, Florida and Washington, D.C.

Travelscape, Inc., a subsidiary of Expedia, is headquartered in Las Vegas, Nevada. Travelscape leases office space consisting of approximately 53,000 square feet in Las Vegas, Nevada. As a result of its acquisition of the Classic Custom Vacation assets in March 2002, Expedia also leases office space in San Jose, California and warehouse space in Post Falls, Idaho.

Expedia also leases office space in Brussels, Belgium; Toronto, Canada; London, England; Milan, Italy; and near Munich, Germany.

HOTEL RESERVATIONS

Hotel Reservations Network's operations are headquartered in Dallas, Texas, where it leases an aggregate of approximately 47,000 square feet of office space. The lease for this space expires in 2003.

TravelNow.com's offices are located in Springfield, Missouri, where it currently leases approximately 12,500 square feet of office space. The lease for this space expires in 2002. TravelNow has entered into lease of approximately 15,000 square feet of office space commencing in May 2002.

Hotel Reservations Network also leases office space in Ft. Worth and Pharr, Texas, Miami, Florida, Grand Haven, Michigan, Atlantic City, New Jersey, Burbank, California, and Paris, France.

TELESERVICES

PRC's headquarters are located in Plantation, Florida, where it leases approximately 45,000 square feet of space under a lease expiring in March 2010, with options to renew for up to an additional 15 years.

As of December 31, 2001, PRC had 20 customer interaction centers. PRC added two centers as a result of the Hancock Information Group acquisition and, in addition, opened two centers and closed two centers.

As of December 31, 2001, PRC operated the following customer interaction centers:

APPROXIMATE NUMBER OF APPROXIMATE WORKSTATIONS AT	
LOCATION SQUARE FEET DECEMBER 31, 2001 - -----	---
----- Miami,	
Florida.....	29,000
	300 Kendall,
Florida.....	

24,000 405 Orlando,  
 Florida.....  
 34,000 610 Margate,  
 Florida.....  
 34,000 580 Miami-Glades,  
 Florida(1).....  
 138,000 1,405 Coconut Creek,  
 Florida..... 26,000  
 205 East Kendall,  
 Florida..... 12,000  
 165 Sunrise,  
 Florida(1).....  
 41,000 445 Cutler Ridge,  
 Florida(2).....  
 109,000 940 Shreveport,  
 Louisiana.....  
 35,000 340 Cedar Rapids (Westdale),  
 Iowa..... 6,000 135 Cedar  
 Rapids,  
 Iowa(1)..... 9,000  
 90 Coralville,  
 Iowa.....  
 13,000 150 Ames,  
 Iowa.....  
 12,000 180 Marshalltown,  
 Iowa..... 9,000  
 130 Des Moines (Euclid),  
 Iowa..... 12,000 170  
 Des Moines (Army),  
 Iowa..... 14,000 150  
 West Mifflin,  
 Pennsylvania..... 64,000  
 520 Longwood,  
 Florida(1).....  
 25,000 125 Maitland,  
 Florida.....  
 18,000 130 7,175

In addition to the above facilities, and as a result of its acquisition of Avaltus in August 2001, PRC leases approximately 10,000 square feet of space in Salt Lake City, Utah and approximately 22,000 square feet of space in Denver, Colorado under leases expiring in February 2002 and November 2003, respectively.

PRC leases all of the above facilities, with the exception of the facility located in Sunrise, Florida, which it owns. The leases for these facilities expire between 2002 and 2022, assuming the exercise of all renewal options.

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- (1) Certain administrative and operational departments are also located in this facility.
- (2) In its pending chapter 11 bankruptcy case, K-Mart Corporation has rejected PRC's sub-lease of the premises located at 19500 S. Dixie Highway, Cutler Ridge, Florida and has rejected K-Mart's original lease of the premises made with the landowner, all pursuant to the provisions of 11 U.S.C. section 365. The landowner has commenced an action in state court to evict PRC from the premises, for possession and for unlawful detainer, which action PRC intends to vigorously defend. PRC has answered and served affirmative defenses to the complaint filed by the landowner and has asserted a counterclaim for unjust enrichment based on improvements PRC made to the premises.

#### MATCH.COM

Ticketmaster's personals businesses are located in Richardson, Texas, where it currently leases approximately 31,300 square feet under a lease expiring in 2005.

#### CITYSEARCH AND RELATED

Ticketmaster's city guide headquarters are located in Pasadena, California, where it currently leases approximately 48,200 square feet under a lease expiring on March 31, 2002. Ticketmaster has leased

approximately 36,900 square feet at 3731 Wilshire Blvd., Los Angeles, California, under a lease expiring 2006 and intends to move its city guide headquarters to such space in the first and second quarters of 2002. Ticketmaster also leases local office space for its city guide business in approximately 14 cities throughout the United States. Local offices range in size from less than 2,000 square feet to 7,500 square feet and have lease terms that range from month-to-month to seven years. None of such leases expires later than 2005, except for the San Francisco lease that expires in 2006.

## USA ELECTRONIC COMMERCE SOLUTIONS

The executive offices of USA Electronic Commerce Solutions are located at 810 Seventh Avenue, 18th Floor, New York, New York. Approximately 15,500 square feet are maintained under a lease expiring in 2010. ECS also maintains approximately 6,000 square feet of additional space at the same address under a sublease expiring in 2007.

## STYLECLICK

Styleclick's headquarters are in Chicago, where it leases 10,500 square feet under a lease expiring 2005. Styleclick also leases a 23,000 square feet facility in Culver City, California under a lease expiring in 2006, a 4,800 square foot facility in High Point, North Carolina under a lease that expires in 2004, and an additional 10,000 square feet in Los Angeles, under a lease expiring in 2002, each of which it subleases to a third party.

## USA ENTERTAINMENT

### CABLE AND STUDIOS

The executive offices of USA Cable are located at 1230 Avenue of the Americas, New York, New York 10020. USA Cable leases approximately 168,000 square feet at this office space under a lease that continues until March 31, 2005, subject to two five-year options to continue the term. USA Cable also has smaller offices in Chicago (affiliate relations and sales), Detroit (sales), and Los Angeles (affiliate relations, sales and programming).

USA Cable also leases approximately 55,000 square feet in a facility in Jersey City, New Jersey, where USA Cable has its broadcast operations center. This space is used to originate and transmit the USA Network, Sci Fi Channel, Trio, and NWI signals. Post-production for USA Networks, Sci Fi Channel, and Trio, including audio production, editing, graphics and duplication, also is performed at this location. The lease for this space continues through April 30, 2009, and there are options to continue the term beyond that time.

Studios USA currently conducts its domestic television production and distribution operations primarily from its executive and administrative offices in West Hollywood, California (in a facility owned by USA, located at 8800 Sunset Boulevard, West Hollywood, California 90069) and in New York City (in leased office space located at 1325 Avenue of the Americas, New York, New York 10019). Additionally, Studios USA has four domestic sales offices located in Atlanta, Chicago, Dallas and New York City. Production facilities in Southern California are leased primarily from Universal on its Universal City lot on an as-needed basis depending upon production schedules. Studios USA also leases production facilities in New York City for the production of LAW & ORDER, LAW & ORDER: CRIMINAL INTENT, SALLY and MAURY, in New Jersey for LAW & ORDER: SPECIAL VICTIMS UNIT and in Chicago for production of THE JERRY SPRINGER SHOW.

### FILMED ENTERTAINMENT

USA Films' executive offices are located in New York, New York. Approximately 15,000 square feet are maintained under a lease expiring on June 30, 2009.

USA Films also maintains offices in Beverly Hills, California, where it currently leases approximately 20,000 square feet under a lease expiring on May 31, 2007.

## ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, USA and USANi LLC and their subsidiaries are parties to litigation involving property, personal injury, contract and other claims. The amounts that may be recovered in these matters may be subject to insurance coverage. Although amount received in litigation are not expected to be material to the financial position or operations of USA and USANi LLC, this litigation, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could materially harm our business.

### LITIGATION RELATING TO THE CONTRIBUTION OF USA ENTERTAINMENT ASSETS TO JOINT VENTURE WITH VIVENDI UNIVERSAL S.A.

USA and its directors, along with Vivendi Universal S.A. and Liberty Media Corporation, have been named as defendants in purported stockholder class and derivative actions filed in the Court of Chancery, County of New Castle, State of Delaware. Each of these actions, which are substantially identical, are brought on behalf of a purported class consisting of public stockholders of USA not affiliated with any of the defendants and as a purported derivative action in the right of USA. The complaints in the actions allege, among other things, that "[t]he transfer of the USA Entertainment Group and its assets to the [VUE Joint Venture] represents a break-up" of USA; that this transfer is "wrongful, unfair and harmful" to the public stockholders of USA; that the transfer, and

related transactions, represent breaches of fiduciary duty by the individual defendants; that the board of directors of USA has not fulfilled its alleged duties in connection with the transaction because defendants were allegedly under a duty to seek the highest price available for the USA Entertainment Group; that specified defendants (i.e., Mr. Diller, Vivendi, Liberty and the representatives of Vivendi and Liberty on the USA board of directors) are being disproportionately "enriched" by the proposed transaction in relation to the public stockholders; that the defendants have "failed to fully disclose the true value of USA's Entertainment Group" and the alleged future financial benefits which Vivendi, Liberty and Mr. Diller will obtain; and that the individual defendants approved Mr. Diller's alleged usurpation of a corporate opportunity. The complaints also allege that Vivendi and Liberty have aided and abetted the individual defendants in their alleged breaches of fiduciary duty. As relief, the complaints seek, among other things, a declaration that the proposed joint venture is "unfair, unjust and inequitable"; an injunction against consummation of the transactions; an award of damages in an unspecified amount; and an order "[r]equiring defendants to conduct a proper process in the break up of [USA]." On February 11, 2002, the Chancery Court issued an order consolidating the actions under the caption, IN RE: USA NETWORKS, INC. SHAREHOLDERS LITIGATION, Consolidated Civil Action No. 19236-NC. USA believes the allegations of the complaints are entirely without merit and intends to vigorously defend the actions.

#### HOME SHOPPING NETWORK CONSUMER CLASS ACTION

On November 15, 1999, Home Shopping Network was named as a defendant in a consumer class action lawsuit entitled BRUCE TOMPKINS, HENRIETTA BUCK AND JODI HABEL HILL ON BEHALF OF THEMSELVES AND ALL OTHER SIMILARLY SITUATED INDIVIDUALS V. PROTEVA, INC., HOME SHOPPING NETWORK, INC. D/B/A HOME SHOPPING NETWORK AND THE HOME SHOPPING NETWORK, JOHN ROBERTS, VIVIAN ROBERTS MCKINLEY, KN CHAN, WILLIAM LYNCH AND BRIAN JORDAN, filed in the Chancery Division of the Circuit Court of Cook County, Illinois, Case No. 99 CH 12013. The action is purportedly brought on behalf of consumers who were alleged to have purchased a Proteva personal computer from one of the defendants and experienced one of the three following conditions: (a) the computer was or became defective upon purchase or soon thereafter, (b) a defendant refused or failed to honor the rebate offer which was offered as part of the sale, or (c) a defendant refused or failed to provide customer service as purportedly advertised. In the complaint, the plaintiffs assert causes of action for consumer fraud, breach of implied warranty of merchantability and unjust enrichment and seek compensatory and punitive damages along with interest, costs and attorneys' fees. Home Shopping Network filed an answer to the complaint.

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The plaintiffs filed an amended class action complaint that, among other things: (i) added an additional named plaintiff, Susan Leff, (ii) added Home Shopping Club LP, Warrantech Helpdesk, Inc., Banctech Service Corp. and Timespace Internet, Inc. as named defendants, (iii) removed two individuals as named defendants, Vivian Roberts McKinley and Kn Chan, and (iv) expanded the existing warranty cause of action to also apply to breach of express warranty. On May 9, 2000, Home Shopping Network, Inc. and Home Shopping Club LP (the "HSN Defendants") filed a motion to dismiss the amended complaint. On May 23, 2000, the Cook County Circuit Court addressed the HSN Defendants' motion to dismiss by entering an Order that, in pertinent part, required the plaintiffs to file a second amended complaint. On June 6, 2000, the plaintiffs filed a second amended class action complaint that, among other things, added an additional named plaintiff, Anastasia Koliass, and asserted two additional causes of action for negligent misrepresentation and breach of contract. The HSN Defendants filed an answer and affirmative defenses to the second amended complaint.

On December 1, 2000, the plaintiffs filed a third amended class action complaint that, among other things: (i) added an additional named plaintiff, Wayne Varner, (ii) removed three corporate defendants, Warrantech Helpdesk, Inc., Banctech Services Corp. and Timespace Internet, Inc., and (iii) removed causes of actions for negligent misrepresentation and breach of contract. The HSN Defendants filed an answer and affirmative defenses to the third amended complaint. On February 27, 2001, the plaintiffs filed a motion for class certification.

On June 1, 2001, the Court entered an Order granting plaintiffs' motions to voluntarily dismiss plaintiffs Henrietta Buck and Anastasia Koliass from the lawsuit. On July 2, 2001, the HSN Defendants together with certain other defendants filed a consolidated brief in opposition to plaintiffs' motions for class certification. On or about July 23, 2001, the plaintiffs sought and were granted leave to file a fourth amended class action complaint that added an additional named plaintiff, Monetha Harris. The HSN Defendants have filed an answer and affirmative defenses to the fourth amended complaint. In addition, on September 6, 2001, the HSN Defendants filed a revised consolidated brief in opposition to plaintiffs' motion for class certification to which the plaintiffs replied. A hearing on the motion for class certification was held on November 13, 2001. On December 14, 2001, the Court granted class certification for an Illinois class only (plaintiffs were seeking nationwide class certification). The parties are engaged in discovery and the HSN Defendants continue to vigorously defend this action.

Beginning in October 1996, Home Shopping Club, Inc. ("HSC"), predecessor in interest to HSN LP, withheld monthly payments under the Affiliation Agreement with Urban Broadcasting Corporation due to breaches of the Affiliation Agreement by Urban. Urban contested this action. In addition, on January 10, 1997, Urban filed an Emergency Request for Declaratory Ruling with the FCC requesting an order that the requirement in the Affiliation Agreement that Urban broadcast at full-power violates the FCC's rules, or alternatively, requesting that the FCC revise the terms of the Affiliation Agreement to bring it into compliance with its Rules. Urban also requested that the FCC undertake an inquiry into USA's actions of withholding payments to Urban to determine whether USA is fit to remain an FCC licensee. On December 17, 1999, Urban filed a Supplement to Emergency Request for Declaratory Relief requesting that the FCC (1) set a deadline for reformation of several agreements between the parties, (2) rule that the station's power authorized level is lower than the level set by current authorizations and (3) agree not to pass on any applications for assignment or transfer of the station. Certain entities controlled by USA filed an opposition to this Request on January 10, 2000 to which Urban replied on January 27, 2000. As of this date, no ruling has been issued by the FCC.

On October 23, 1997, HSC filed suit against Urban in the Circuit Court for Arlington County, Virginia seeking a judicial declaration that it was entitled to withhold the payments in dispute because of Urban's breaches of the Affiliation Agreement. Urban responded with counterclaims and began a related action in the Circuit Court against HSC, HSN, Inc. (now USA) and Silver King Broadcasting of Virginia, Inc. (now USA Station Group of Virginia, Inc. ("USA-SGV")). Urban asserted contract and

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tort claims related to HSC's decision to withhold affiliation payments. A trial was held on April 5-7, 1999. At the conclusion of Urban's case, the court ruled that Urban's evidence be struck and that judgment be entered in favor of HSC, USA and USA-SGV on all counts of Urban's First Amended Motion for Judgment. Further, the court ruled that the related chancery action, which had been consolidated with the law action for trial, be severed for further proceedings at some future date. A Final Order of Judgment concerning the above rulings was entered by the court on May 5, 1999. On May 3, 1999, HSC, USA and USA-SGV filed a Motion for Summary Judgment directed to all remaining counts in the chancery action. Urban has appealed the judgment in the law action to the Virginia Supreme Court. In addition, on June 11, 1999, judgment was entered in favor of HSC, USA and USA-SGV on all Urban's counterclaims in the chancery suit, and the trial court granted HSC's request for a declaratory judgment that HSC had not breached the Affiliation Agreement. Urban failed to file a timely appeal of the judgment in the chancery suit. Based on Urban's failure to appeal the chancery suit, USA has moved to dismiss Urban's appeal in the related law action. A hearing on the motion to dismiss was heard on February 16, 2000. On March 1, 2000, the Virginia Supreme Court granted the motion to dismiss and dismissed Urban's petition for appeal related to the at-law action. On or about March 15, 2000, Urban filed a petition for rehearing which was denied by the Virginia Supreme Court on April 21, 2000.

On April 20, 2000, Urban filed a motion in the U.S. Bankruptcy Court for the Eastern District of Virginia seeking to have that Court reopen Urban's prior Chapter 11 case and clarify certain factual and legal matters contained within the Court's September 30, 1996 confirmation order. In addition, Amresco Funding Corporation, the entity that provided Urban with bankruptcy exit financing, joined in Urban's motion. By Order dated May 3, 2000, the Court denied Urban's motion. On May 15, 2000, Urban filed a motion requesting that the Court reconsider its May 3, 2000 ruling, or, in the alternative, amend findings of fact. By Memorandum Opinion and Order dated June 9, 2000, the Court denied Urban's motion to reconsider, or, in the alternative, to amend findings of fact.

On November 12, 1999, the Arlington County Circuit Court granted USA-SGV a default judgment against Urban arising from Urban's defaults on the Loan Agreement for \$10,552,060.64, plus interest, plus \$8,131 in attorneys fees and costs. Urban has noted an appeal of this judgment. Urban's appeal of this judgment was denied by the Virginia Supreme Court on June 2, 2000, and Urban's petition for rehearing was denied on July 21, 2000.

On August 1, 2000, Urban and Mr. Theodore M. White, President and owner of all of the voting stock of Urban, filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Columbia. USA-SGV filed motions on August 3, 2000 requesting the Court to: (a) transfer venue of Urban's bankruptcy case from the U.S. Bankruptcy Court for the District of Columbia to the U.S. Bankruptcy Court for the Eastern District of Virginia, and (b) appoint a Chapter 11 trustee for Urban. The U.S. Bankruptcy Court for the District of Columbia granted USA-SGV's motion to transfer venue. An evidentiary hearing on USA-SGV's motion for entry of an order directing appointment of a Chapter 11 trustee for Urban was scheduled to occur before the Bankruptcy Court for the Eastern District of Virginia on November 29, 2000. On November 29, 2000, the parties entered into a Stipulation and Consent Order Re Motion to Appoint Chapter 11 Trustee.

On or about June 27, 2001, USA-SGV transferred its claim against Urban to

USA Broadcasting, Inc. On April 6, 2001, the U.S. Bankruptcy Court for the Eastern District of Virginia approved a sale of Urban Broadcasting Corporation's ("Urban") assets for the sum of \$60,000,000. The closing of the sale of the Urban assets occurred on August 20, 2001. Pursuant to an order of the Bankruptcy Court, the purchaser paid the balance of the purchase price to counsel for Urban to be held in trust. The Bankruptcy Court rejected Urban's amended plan of reorganization and Univision of Virginia, Inc.'s plan of liquidation and the Court directed the appointment of a Chapter 11 Trustee. The proceeds of the sale are sufficient to pay all of Urban's creditors in full, including USA Broadcasting, Inc.'s judgment claim, and leave substantial funds for distribution to Urban's equity holders.

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On February 26, 2002, the Court entered an Order allowing and authorizing the Trustee to pay USA's judgment claim against Urban in the approximate amount of \$15 million. USA has received this payment. USA also is asserting a claim against Urban for attorneys fees and costs in the amount of approximately \$1 million. That matter is set for hearing before the Court on April 15, 2002.

#### TICKETS.COM LITIGATION

On July 23, 1999, Ticketmaster Online-Citysearch and Ticketmaster Corporation filed a Complaint seeking damages and injunctive relief against Tickets.com, Inc. ("Tickets.com"), entitled TICKETMASTER CORPORATION AND TICKETMASTER ONLINE-CITYSEARCH, INC. V. TICKETS.COM, INC., Case No. 99-07654 HLH, in the United States District Court for the Central District of California. Ticketmaster claims that Tickets.com violates Ticketmaster's legal and contractual rights by, among other things, (i) providing deep-links to Ticketmaster's internal web pages without Ticketmaster's consent, (ii) systematically, deceptively and intentionally accessing Ticketmaster's computers and computer systems and copying verbatim Ticketmaster event pages daily and extracting and reprinting Ticketmaster's Uniform Resource Locators ("URLs") and event data and information in complete form on Tickets.com's website and (iii) providing false and misleading information about Ticketmaster, the availability of tickets on the Ticketmaster website, and the relationship between Ticketmaster and Tickets.com. On January 7, 2000, Ticketmaster filed a first amended complaint. Tickets.com filed a motion to dismiss Ticketmaster's first amended complaint on or about February 23, 2000, which was denied in part and granted in part with leave to amend. Ticketmaster filed a second amended complaint on April 21, 2000.

On March 3, 2000, Ticketmaster filed a motion for preliminary injunction, requesting the Court to enjoin Tickets.com from, among other things, deep-linking and "spidering" to Ticketmaster's internal web pages, accessing Ticketmaster's computers and computer systems and copying Ticketmaster's event pages, and providing misleading and false information about Ticketmaster, the availability of tickets on the Ticketmaster website and the relationship between Ticketmaster and Tickets.com. On July 31, 2000, the Court held a hearing. On August 11, 2000, the Court issued a ruling denying Ticketmaster's motion for preliminary injunction. On September 8, 2000, Ticketmaster filed a notice of appeal of the Court's order denying Ticketmaster's motion for preliminary injunction. On January 11, 2001, the Ninth Circuit Court of Appeals affirmed the District Court's order denying Ticketmaster's motion for preliminary injunction.

On May 30, 2000, Tickets.com filed its Answer to Ticketmaster's second amended complaint and counterclaims against Ticketmaster Corporation and Ticketmaster Online-Citysearch, Inc. Tickets.com asserted claims for relief against Ticketmaster for violations of the Sherman Act, sections 1 and 2, violations of California's Cartwright Act, violations of California's Business and Professions Code section 17200, violations of common law restraint of trade and unfair competition and business practices, interference with contract and declaratory relief. Tickets.com claimed that Ticketmaster Corporation's exclusive agreements with Ticketmaster Online-Citysearch, Inc., venues, promoters and other third parties injure competition, violate antitrust laws, constitute unfair competition and interfere with Tickets.com's prospective economic advantages. On July 19, 2000, Ticketmaster filed a motion to dismiss any claim based in whole or in part on Ticketmaster's alleged litigation conduct as well as Tickets.com's ninth claim for relief under California's antitrust laws (the Cartwright Act). On September 25, 2000, the court entered an order denying Ticketmaster's motion on the ground that Tickets.com has the right to pursue some discovery on the issues raised in the motion before the issue can properly be resolved.

The Court recently amended the pre-trial schedule setting September 1, 2002 as the discovery cut-off date, January 3, 2003 as the date for the final pre-trial conference, and has indicated that the trial will be set to commence in February 2003. The parties currently are actively engaged in document and deposition discovery in the matter. Tickets.com seeks monetary damages that, if awarded, would have a material adverse effect on Ticketmaster. Ticketmaster is vigorously defending against the claims

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brought by Tickets.com. However, Ticketmaster can give no assurances that Ticketmaster will not incur material damages or costs in connection with the

litigation.

#### CLASS ACTION LITIGATION RELATED TO MAGAZINE SALES

FLORIDA: On or about December 18, 2000, Ticketmaster Corporation and Time, Inc. were named as defendants in a purported class action lawsuit filed in the Florida Circuit Court of the Thirteenth Judicial Circuit in Hillsborough County. The lawsuit is entitled VICTORIA MCLEAN V. TICKETMASTER CORPORATION AND TIME, INC., Case No. G0009564. The lawsuit alleges that the offering for sale by Ticketmaster Corporation of subscriptions to Entertainment Weekly magazine, a publication of Time, Inc., as an agent of Time, Inc., involves a pattern of criminal activity, conspiracy and unfair and deceptive trade practices by allegedly disclosing credit card account information to third parties without express written consent and unauthorized posting to credit card accounts. As the prayer for relief in the lawsuit, the plaintiff seeks to have the Court enjoin the business practices of which the plaintiff has complained. In addition, the plaintiff seeks treble monetary damages, as well as attorneys' fees and the costs for pursuing the action. Ticketmaster Corporation and Time, Inc. filed a motion to dismiss the complaint on various grounds.

On or about May 30, 2001, the plaintiff filed an amended complaint that purported to add a second consumer as a plaintiff. In response to the amended complaint, Ticketmaster and Time requested that their motion to dismiss be taken off calendar, and on July 23, 2001, Ticketmaster filed an Answer. Discovery is in its beginning stages. Ticketmaster believes the lawsuit is without merit and expects to vigorously defend against the lawsuit.

MICHIGAN: On or about August 17, 2001, Ticketmaster L.L.C. and Time, Inc. were named as defendants in a purported class action lawsuit in the Circuit Court for the County of Macomb, State of Michigan. The lawsuit is entitled GLENN R. MATECUN, AND ALL OTHERS SIMILARLY SITUATED V. TICKETMASTER L.L.C. AND TIME, INC., Case No. 01-3573 CP. On or about January 11, 2002, the plaintiff filed his First Amended Complaint, alleging that Ticketmaster is providing credit card information to Time so that Time can sell unwanted magazine subscriptions without the consumer's knowledge or consent in violation of various Michigan state laws. Plaintiff seeks monetary damages, treble damages, exemplary damages, attorney' fees and equitable relief. Discovery is in the beginning stages. Ticketmaster believes the case is without merit and intends to vigorously defend against the lawsuit.

#### RTL LITIGATION

On August 25, 2000, RTL Plus Deutschland Fernsehen GMBH & Co. Betriebs-KG, Companie Luxembourgeoise de Telediffusion S.A. and UFA Film-Und Fernseh-GMBH & Co. KG (collectively "RTL") filed a complaint in the Netherlands against Universal Studios International B.V. ("USI"). USI, the international distribution entity of Universal Studios, Inc., has the rights, subject to various exemptions, to distribute internationally certain television programs owned by Studios USA and other USA entities. The complaint involves a 10-year "output" agreement between RTL and USI, signed July 30, 1996, pursuant to which, among other things, certain television programs owned by Studios USA and other USA entities are distributed in Germany (the "RTL Output Agreement"). The RTL Output Agreement also includes "co-production" provisions under which RTL acquires an equity interest in certain programs. The complaint, based on equitable doctrines of "mistake of fact" and "unforeseen circumstances," requests the court to modify or nullify RTL's licensing and "co-production" obligations with respect to current television programs. Studios USA and its affiliated companies are not parties to the RTL Output Agreement. On November 22, 2000, USA moved to intervene or, alternatively, to join USI, in the Netherlands proceeding.

On July 18, 2001, the Court in The Netherlands permitted USA to join USI as a co-defendant in the proceeding, but not to intervene as an independent party capable of asserting rights on its own

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behalf. On November 20, 2001, a portion of the dispute was settled. With respect to the remainder of the dispute, USA filed its Statement of Defense on January 16, 2002. Studios USA and its affiliated entities believe the RTL complaint to be without merit, and intend to vigorously protect their interests.

#### ASCAP LITIGATION

USA Cable's networks, USA Network, Sci Fi Channel, Trio and NWI, along with most other satellite-delivered networks, are involved in continuing disputes regarding the amounts to be paid by it for the performance of copyrighted music in the repertoires of the American Society of Composers, Authors and Publishers ("ASCAP") and by Broadcast Music, Inc. ("BMI"). The payments to be made to ASCAP will be determined in a "rate court" proceeding under the jurisdiction of the U.S. District Court for the Southern District of New York. In the initial phase of this proceeding, it was determined that USA Network must pay ASCAP interim license fees calculated at 0.3% of the gross revenues of USA Network. The same interim fee subsequently has been agreed to for Sci Fi Channel, Trio and NWI. This fee level is subject to upward or downward adjustment based on the ultimate outcome of the rate court proceeding, or as the result of future negotiations.



The relevant time periods are subsequent to January 1, 1986 with respect to USA Network and subsequent to launch with respect to Sci Fi Channel, Trio and NWI. As to BMI, interim fees are being paid by USA Network, Sci Fi Channel, Trio and NWI. These interim fees are subject to upward or downward adjustment, based on a future negotiated resolution or submission of the issue to BMI's own federal "rate court." USA Network's fees to BMI are final through June 30, 1992 and interim thereafter. The fees of the remaining services are interim from their dates of launch. USA cannot predict the final outcome of these disputes, but does not believe that it will have a material impact on its financial results.

TRACY KEENAN WYNN, ET AL. V. NATIONAL BROADCASTING COMPANY, INC., ET AL.

On October 20, 2000, plaintiffs, a group of television writers over the age of forty, filed a purported class action in the United States District Court for the Central District of California Western Division, against many talent agencies, television networks and studios, including Studios USA LLC, alleging that the defendants were discriminating against older writers by not hiring them for writers positions. In November, 2000, plaintiffs filed an amended complaint adding new plaintiffs, and alleging claims for relief against Studios USA LLC (and others) for: (1) Violation of Federal and State Civil Rights Laws, including the Age Discrimination in Employment Act, 29 U.S.C. Section 623, the California Fair Employment and Housing Act, California Government Code Sections 12940 and 12941, and the New York Human Rights Law, N.Y. Exec. Law Section 296; (2) Aiding and Abetting Violations of Civil Rights Laws; (3) Conspiracy to Violate Civil Rights (with other commonly owned or affiliated defendants); and (4) Breach of the Collective Bargaining Agreement under the Labor Management Relations Act, 29 U.S.C. Section 301.

Studios USA LLC filed a motion to dismiss this action, or in the alternative, to sever the claims against Studios USA LLC from the claims against the other defendants, based on, among other things, the fact that plaintiffs have alleged a twenty-year conspiracy against a company that was incorporated only several years ago, and the fact that there are a lack of specific allegations against Studios USA LLC. The hearing on the motion, originally set for February 12, 2001, was taken off the calendar and the judge took the matter under submission without oral argument. On January 24, 2002, the Court granted Studios USA LLC's motion to dismiss as well as most of the defendants' joint motions. Plaintiffs may amend their complaint. If they do amend, they would have to sue Studios USA alone, not in a general action against other defendants. They could not join other plaintiffs unless they established specific factual similarities based on specific actions by Studios USA against the particular plaintiff. As Studios USA successfully argued in its separate motion, a plaintiff would need to allege specific behavior of Studios USA to state a claim against Studios USA, and plaintiffs can not sue Studios USA, a three year old company, for the purported twenty year conspiracy. Studios USA LLC

believes it is unlikely that this claim will present any material liability to the Company and intends to vigorously defend against any potential future lawsuit.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

USA's common stock is quoted on The Nasdaq Stock Market ("NASDAQ") (Symbol: USAI). There is no established public trading market for USA's Class B common stock.

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

The following table sets forth, for the calendar periods indicated, the high and low sales prices per share for USA's common stock on Nasdaq:

HIGH	LOW	-----	YEAR ENDED DECEMBER 31,
			2001 First
Quarter.....	\$24.94	\$17.69	Second
Quarter.....	28.20	20.16	Third
Quarter.....	28.44	16.45	Fourth
Quarter.....	27.84	17.45	YEAR ENDED DECEMBER 31, 2000 First
Quarter.....	\$29.06	\$19.13	Second
Quarter.....	24.00	16.88	Third
Quarter.....	25.94	20.00	Fourth

Quarter..... 22.38 16.19

The bid prices reported for these periods reflect inter-dealer prices, rounded to the nearest cent, and do not include retail markups, markdowns or commissions, and may not represent actual transactions.

There were approximately 6,500 stockholders of record as of February 15, 2002 and the closing price of USA's common stock that day was \$30.25. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

USA has paid no cash dividends on its common stock to date and does not anticipate paying cash dividends on its common stock in the immediate future. Additionally, USA's current loan facilities preclude the payments of dividends on common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial data of USA for each of the years in the five year period ended December 31, 2001. This data was derived from USA's audited consolidated financial statements and reflects the operations and financial position of USA at the dates and for the periods indicated. The information in this table should be read with the financial statements and accompanying notes and other financial data pertaining to USA included herein. In August 2001, the Company completed its previously announced sale of all of the capital stock of certain USA Broadcasting ("USAB") subsidiaries that own 13 full-power television stations and minority interests in four additional full-power stations to Univision Communications Inc. ("Univision"). USAB is presented as a discontinued operation for all periods presented. On February 4, 2002, USA completed its acquisition of a controlling interest in Expedia, Inc. ("Expedia") through a merger of one of its

subsidiaries with and into Expedia. On December 17, 2001, USA and Vivendi Universal, S.A. ("Vivendi") announced a transaction (the "Vivendi Transaction") in which USA's Entertainment Group, consisting of USA Cable, Studios USA, and USA Films, would be contributed to Vivendi Universal Entertainment, a new joint venture controlled by Vivendi. The Vivendi Transaction is subject to USA shareholder vote, including the approval of 66 2/3% of the outstanding USA common stock and USA preferred stock, voting together as a single class, and excluding shares held by Vivendi, Liberty, Mr. Diller and their respective affiliates, as well as other customary regulatory approvals, and there can be no assurance that the transaction will be completed.

YEAR ENDED DECEMBER 31, -----  
-----  
----- 1997(1)  
1998(2)(3) 1999(4) 2000(5)  
2001(6) -----

(DOLLARS IN THOUSANDS, EXCEPT  
PER SHARE DATA) STATEMENTS OF  
OPERATIONS DATA: Net

revenues.....					
\$1,377,145	\$2,759,896	\$3,371,745			
\$4,596,152	\$5,284,807	Operating			
profit.....					
105,753	249,904	269,914	56,326		
233,825	Earnings (loss) from				
	continuing				
operations.....					
34,209	63,892	16,515	(88,588)		
(125,052)	Earnings (loss) before				
	cumulative effect of accounting				
change.....	13,061	76,874			
(27,631)	(147,983)	392,795	Net		
	earnings (loss).....				
13,061	76,874	(27,631)	(147,983)		
383,608	Basic earnings (loss)				
	per common share from continuing				
	operations				
(7):.....					
0.16	0.22	0.05	(0.25)	(0.33)	
	Diluted earnings (loss) per				
	common share from continuing				
	operations				
(7):.....					
0.15	0.19	0.04	(0.25)	(0.33)	
	Basic earnings (loss) per common				
	share before cumulative effect				
	of accounting change				
(7):.....	0.06	0.27	(.08)		

(0.41) 1.05 Diluted earnings (loss) per common share before cumulative effect of accounting change (7):.....	0.06	0.21
(.08) (0.41) 0.61 Basic earnings(loss) per common share (7):.....	0.06	
0.27 (.08) (0.41) 1.03 Diluted earnings (loss) per common share (7):.....	0.06	
0.21 (.08) (0.41) 0.60 BALANCE SHEET DATA (END OF PERIOD):		
Working capital.....	\$	
60,941 \$ 443,408 \$ 381,046 \$		
355,157 \$1,380,936 Total assets.....		
2,670,796 8,316,190 9,233,227		
10,473,870 11,703,052 Long-term obligations, net of current maturities.....		
448,346 775,683 574,979 552,501		
544,667 Minority interest.....		
372,223 3,633,597 4,492,066		
4,817,137 4,968,369		
Stockholders' equity.....	1,447,354	
2,571,405 2,769,729 3,439,871		
3,945,501 Other Data: Net cash provided by (used in): Operating activities.....	\$	
47,673 \$ 256,929 \$ 401,577 \$		
372,507 \$ 669,932 Investing activities.....		
(82,293) (1,201,912) (413,968)		
(524,556) 51,935 Financing activities.....		
108,050 1,297,654 55,948 58,346		
64,008 Effect of exchange rate changes....	-- (1,501) (123)	
(2,687) (3,663) Adjusted EBITDA.....		
198,373 496,612 627,745 810,695		
893,713		

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

TWELVE MONTHS ENDED DECEMBER 31, -----				
-----				
----- 1997(1) 1998(2)(3) 1999(4)				
2000(5) 2001(6) -----				
----- Operating profit.....				
\$105,753 \$249,904 \$269,914 \$ 56,326				
\$233,825 Depreciation and amortization.....	71,231			
215,811 324,506 693,642 572,765				
Amortization of cable distribution fees... 19,261 22,089 26,680 36,322				
43,975 Amortization of non-cash distribution fees, marketing, and compensation.....				
expense.....				
2,128 8,808 6,645 24,405 39,096				
Disengagement expenses.....	-- -- --			
- 4,052 -----				
----- Adjusted EBITDA.....				
\$198,373 \$496,612 \$627,745 \$810,695				
\$893,713 -----				
-----				

- 
- (1) The consolidated statement of operations data include the operations of Ticketmaster since the acquisition by USA of its controlling interest in Ticketmaster on July 17, 1997.
  - (2) The consolidated statement of operations data include the operations of USA Networks and Studios USA since their acquisition by USA from Universal on February 12, 1998 and Citysearch since its acquisition by USA on September 28, 1998. For more information about the Ticketmaster Online-Citysearch transaction, see "Corporate History."
  - (3) Net earnings for the year ended December 31, 1998 include a pre-tax gain of \$74.9 million related to USA's sale of its Baltimore television station during the first quarter of 1998 and a pre-tax gain of \$109.0 million related to the Citysearch transaction during the fourth quarter of 1998.
  - (4) The consolidated statement of operations data include the operations of Hotel Reservations Network since its acquisition by USA on May 10, 1999 and the operations of October Films and the domestic film distribution and development businesses of Universal, which was previously operated Polygram Filmed Entertainment, referred to as USA Films, since their acquisition by USA on May 28, 1999. Net earnings for the year ended December 31, 1999 includes a pre-tax gain of \$89.7 million related to the sale of securities.
  - (5) Includes a pre-tax gain of \$104.6 million related to the Styleclick transaction, a pre-tax gain of \$3.7 million related to the Hotel Reservations Network initial public offering, and a pre-tax charge of \$145.6 million related to impairment of Styleclick goodwill.
  - (6) Includes a gain of \$517.8 million, net of tax, related to the sale of capital stock of certain USA Broadcasting subsidiaries and an after-tax expense of \$9.2 million related to the cumulative effect of adoption as of January 1, 2001 of SOP 00-2, Accounting By Producers or Distribution of Films.
  - (7) Earnings (loss) per common share data and shares outstanding retroactively reflect the impact of the two-for-one stock splits of USA's common stock and Class B common stock paid on February 24, 2000 and March 26, 1998. All share numbers give effect to such stock splits.

## ITEM 7. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

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

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

On December 17, 2001, USA and Vivendi Universal, S.A. ("Vivendi") announced a transaction (the "Vivendi Transaction") in which USA's Entertainment Group, consisting of USA Cable, Studios USA, and USA Films, would be contributed to Vivendi Universal Entertainment, a new joint venture controlled by Vivendi. See below for further discussion under "Subsequent Events".

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

In August 2001, the Company completed its previously announced sale of all of the capital stock of certain USA Broadcasting ("USAB") subsidiaries that own 13 full-power television stations and minority interests in four additional full-power stations to Univision Communications Inc. ("Univision"). Total cash proceeds were \$1.1 billion, of which \$510.4 million was collected in fiscal year 2001 and \$589.6 million in January 2002. The gain on the sale of the stations

was \$517.8 million, net of tax of \$377.4 million. The majority of the stations sold are located in the largest markets in the country and aired HSN on a 24-hour basis. See further discussion of the disengagement process below.

A number of USA's businesses are currently held by two non-wholly owned subsidiaries, Home Shopping Network, Inc. ("Holdco") and USANi LLC. USA maintains control and management of Holdco and USANi LLC, and manages the businesses held by USANi LLC, in substantially the same manner as they would be if USA held them directly through wholly owned subsidiaries. The other principal owners of these subsidiaries are Liberty Media Corporation ("Liberty") and Vivendi, through Universal Studios, Inc ("Universal") and other subsidiaries. USA has the contractual right to require the exchange of the Holdco shares held by Liberty for shares of USA. Following such exchange and after giving effect to the Vivendi Transaction, Holdco and USANi LLC will become wholly owned, thereby simplifying USA's corporate and capital structure.

#### SUBSEQUENT EVENTS

#### 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

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Expedia's then outstanding shares, and 94.9% of the voting interest in Expedia. On February 20, 2002, USA acquired 936,815 shares of Expedia common stock, increasing USA's ownership to 64.6% of Expedia's 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 will continue to be traded on Nasdaq under the symbol "EXPE," the USA cumulative preferred stock trades on OTC under the symbol "USAIP" and the USA warrants trade on Nasdaq under the symbol "USAIW."

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

#### CONTRIBUTION OF THE USA ENTERTAINMENT GROUP TO VUE

On December 17, 2001, USA announced it had entered into an agreement with Vivendi pursuant to which USA would contribute USA's Entertainment Group to a limited liability entity (Vivendi Universal Entertainment, "VUE") to be controlled by Vivendi, to which Vivendi would contribute the film, television and theme park businesses of Universal Studios, Inc. ("Universal"). Upon consummation of the Vivendi transaction, the joint venture will be controlled by Vivendi and its subsidiaries, with the common interests owned 93.06% by Vivendi, 5.44% by USA and 1.5% by Mr. Diller, Chairman and CEO of USA.

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

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

In addition, USA will issue to Universal ten-year warrants to acquire shares of USA common stock as follows: 24,187,094 shares at \$27.50 per share; 24,187,094 shares at \$32.50 per share; and 12,093,547 shares at \$37.50 per share. Barry Diller, USA's chairman and chief executive officer, will receive a

common interest in VUE with a 1.5% profit sharing percentage, with a minimum value of \$275.0 million, in return for his agreeing to specified non-competition provisions and agreeing to serve as chairman and chief executive officer of VUE. USA and Mr. Diller have agreed that they will not

compete with Vivendi's television and filmed entertainment businesses (including VUE) for a minimum of 18 months.

The Vivendi Transaction is subject to USA shareholder vote, including the approval of 66 2/3% of the outstanding USA common stock and USA preferred stock, voting together as a single class, and excluding shares held by Vivendi, Liberty, Mr. Diller and their respective affiliates, as well as other customary regulatory approvals, and there can be no assurance that the transaction will be completed.

ADOPTION OF NEW ACCOUNTING RULES FOR GOODWILL

Effective January 1, 2002, all calendar year companies will be required to adopt Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." The new rules eliminate amortization of goodwill and other intangible assets with indefinite lives and establish new measurement criterion for these assets. Although it has not completed its assessment, the Company anticipates a write-off of \$325 million to \$425 million primarily related to the Citysearch and Precision Response ("PRC") businesses. Although Citysearch and PRC are expected to generate positive cash flows in the future, due to cash flow discounting techniques to estimate fair value as required by the new rules, the future discounted cash flows may not support current carrying values. The expected range for the Citysearch write-off is \$75 million to \$125 million and for PRC \$250 million to \$300 million. The rules are expected to reduce USA's annual amortization by approximately \$350 million.

ADJUSTED EBITDA

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

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

TWELVE MONTHS ENDED DECEMBER 31, -----			
	2001	2000	1999
-----	-----	-----	-----
Operating profit.....	\$233,825	\$ 56,326	\$269,914
Depreciation and amortization.....			572,765
Amortization of cable distribution fees.....	693,642	324,506	43,975
Amortization of non-cash distribution and marketing expense.....	26,680		26,384
Amortization of non-cash compensation expense.....	11,665	--	--
Disengagement expenses.....	12,712	12,740	6,645
Adjusted EBITDA.....	\$893,713	\$810,695	\$627,745
-----	-----	-----	-----

THIS REPORT INCLUDES FORWARD-LOOKING STATEMENTS RELATING TO SUCH MATTERS AS ANTICIPATED FINANCIAL PERFORMANCE, BUSINESS PROSPECTS, NEW DEVELOPMENTS, NEW MERCHANDISING STRATEGIES AND SIMILAR MATTERS. A VARIETY OF FACTORS 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 SERVED BY THE COMPANY; FUTURE REGULATORY AND LEGISLATIVE ACTIONS AND CONDITIONS IN THE COMPANY'S OPERATING AREAS; COMPETITION FROM OTHERS; SUCCESSFUL INTEGRATION OF

THE COMPANY'S DIVISIONS' MANAGEMENT STRUCTURES; PRODUCT DEMAND AND MARKET ACCEPTANCE; THE ABILITY TO PROTECT PROPRIETARY INFORMATION AND TECHNOLOGY OR TO OBTAIN NECESSARY LICENSES ON COMMERCIALY REASONABLE TERMS; THE ABILITY TO EXPAND INTO AND SUCCESSFULLY OPERATE IN FOREIGN MARKET; AND OBTAINING AND RETAINING KEY EXECUTIVES AND EMPLOYEES.

YEAR ENDED DECEMBER 31, 2001 VS. YEAR ENDED DECEMBER 31, 2000

In April 2000, the Company acquired Precision Response Corporation ("PRC"), a leader in 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 merger 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.

INTERACTIVE

HSN--U.S.

OPERATING RESULTS

Net revenues in 2001 increased by \$125.6 million, or 8.2%, to \$1.66 billion from \$1.53 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, as on-air sales declined in the third quarter of 2001 \$11.5 million due to a dramatic, but relatively short-lived, decline in viewership following the tragedy. 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 36.8 million units compared to 34.2 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 \$48.97, compared to \$48.90 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, the Company incurred higher selling and marketing costs, including programs to attract new customers, and costs related to the Improvements business Adjusted EBITDA in 2001 decreased \$6.5 million, to \$230.3 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 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 \$44.0 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

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increased by \$131.9 million, or 8.6%, to \$1.66 billion from \$1.53 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. HSN anticipates losing sales, which translates on a pro forma basis for 2001, of \$108 million and Adjusted EBITDA of \$15 million. These anticipated losses are consistent with previous disclosures, in which it was stated that disengagement losses would equal approximately 6% of HSN's sales and Adjusted EBITDA. In addition, in order to effectively transfer HSN's

distribution to cable (which has been accomplished), USA will incur charges of approximately \$100 million in the form of payments to cable operators and related marketing expenses. In effect, this approximately \$100 million payment will reduce USA's pre-tax proceeds from the Univision transaction to \$1 billion. The impact of lost sales and Adjusted EBITDA have been presented separately to attempt to illustrate the impact of disengagement and present results on a comparable basis. These disengagement costs are excluded from Adjusted EBITDA. Approximately \$4.1 million of these costs were incurred in 2001 and \$35.9 million are expected to be incurred in 2002. USA believes that its disengagement costs increased to the higher end of USA's anticipated range of costs, since USA was required to achieve a certain portion of disengagement after the Univision announcement and with specified end-dates for continuing broadcast distribution. 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

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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.

#### HOTEL RESERVATIONS

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 to increased sales, including an increased percentage of revenue attributable to affiliates that earn commissions (sales from affiliate websites accounted for approximately 66% of the total revenues, as compared to approximately 53% 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 HRN'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 HRN'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. HRN 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 HRN's stock price rises, the value of the warrants also increases. In



addition, Adjusted EBITDA in 2001 excludes non-cash distribution and marketing expense of \$0.5 million related to cross promotion advertising provided by USA Cable.

#### TELESERVICES

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.

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#### MATCH.COM

Net revenues in 2001 increased by \$20.1 million, or 69.1%, to \$49.2 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 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 consists primarily of HSN--Germany and Home Shopping Espanol, which operates Spanish language electronic retailing operations serving customers primarily in the United States, Puerto Rico and Mexico. HSN--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), HSN--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. HSN--Germany recognizes revenue upon shipment. Home Shopping 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. HSN--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 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 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 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 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

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

#### ELECTRONIC COMMERCE SOLUTIONS/ 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. Styleclick is considering its options with respect to the situation.

#### ENTERTAINMENT

##### CABLE AND STUDIOS

Net revenues in 2001 increased by \$108.0 million, or 7.1%, to \$1.63 billion from \$1.53 billion in 2000 due to significant increases in license fees earned by Studios USA, including amounts related to the three Law & Order programs currently airing on NBC, increased license fees earned in secondary markets, increased revenues associated with THE DISTRICT, higher revenues earned on reality programming, including ARREST AND TRIAL and CROSSING OVER WITH JOHN EDWARD, offset partially by lower talk show syndication revenues. Revenues at USA Cable increased slightly, due mainly to a \$16 million positive adjustment related to affiliate fees recorded in the third quarter of 2001. Advertising revenue was lower than the prior year due to the weak advertising market, which was worsened by the events of September 11th. Note that the cable networks provided \$10.7 million of advertising to Citysearch and Match.com in 2001. In addition, the networks recognized \$42.2 million of barter revenue pursuant to agreements with unaffiliated third parties. Studios USA defers revenue recognition for internally produced series for USA Network and Sci Fi Channel until the product is aired on the networks. Cost related to revenues and other costs and expenses in 2001 increased by \$42.1 million, or 4.3%, to \$1.0 billion from \$977.4 million in 2000 due to higher expenses incurred by Studios USA in relation to product delivered to the broadcast networks and \$13.7 million of higher expense for development costs, offset partially by efficient use of programming by Cable and increased usage of internally developed product by Cable, resulting in reduced program amortization. Adjusted EBITDA in 2001 increased by \$65.9 million, or 12.0%, to \$613.6 million from \$547.7 million in 2000. Excluding one-time items, Adjusted EBITDA in 2001 increased by \$69.1 million, or 12.6%, to \$616.8 million from \$547.7 million in 2000. One-time items include \$3.2 million of one-time compensation expense related to a senior executive in 2001.

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#### EMERGING NETWORKS

Net revenues in 2001 increased by \$3.8 million to \$24.1 million from \$20.3 million in 2000. Revenue in 2001 was impacted by a new affiliate distribution deal, resulting in lower subscriber rates. Cost related to revenue increased by \$8.1 million to \$35.6 million from \$27.5 million in 2001 as compared to 2000 due primarily to higher programming costs of Trio. Adjusted EBITDA loss in 2001 increased by \$4.3 million, to a loss of \$11.5 million.

## FILMED ENTERTAINMENT

Net revenues in 2001 increased by \$81.0 million, or 94.0%, to \$167.0 million compared to \$86.1 million in 2000 due primarily to increased theatrical, video and DVD revenues generated on TRAFFIC, which has grossed more than \$200 million in worldwide box office. Cost related to revenues and other costs and expenses in 2001 increased by \$72.4 million, due to higher film amortization costs related to TRAFFIC and higher prints and advertising costs caused by the Company's adoption of SOP 00-2, "Accounting by Producers and Distributors of Films" in the first quarter of 2001, which require that prints and advertising costs be expensed as incurred rather than amortized over the film's anticipated revenue stream. Adjusted EBITDA in 2001 was \$2.0 million, compared to a loss of \$6.6 million in 2000.

## DEPRECIATION AND AMORTIZATION, NON-CASH COMPENSATION AND OTHER INCOME (EXPENSE)

Depreciation and amortization decreased \$120.8 million to \$572.8 million from \$693.6 million, due primarily to the impact in 2000 of the write-off of Styleclick goodwill of \$145.6 million. On a pro forma basis, giving effect to the Styleclick Transaction and the PRC Transaction, depreciation and amortization decreased \$144.4 million. Amortization of non-cash compensation expense remained stable at \$12.7 million. The 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 \$14.2 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 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, HRN.

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## INCOME TAXES

USA's effective tax rate of 81.8% 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 HRN since February 25, 2000, the public's ownership interest in Styleclick since July 27, 2000 and the partners ownership interest in HSN--Germany since its consolidation as of January 1, 2000.

USA owns approximately 64.6% of Expedia, so minority interest in 2002 will be impacted by the public's ownership interest in Expedia.

Upon completion of the Vivendi Transaction, Holdco and USA will own 100% of the member's interest in USANi LLC. USA has the contractual right to require the exchange of the Holdco shares held by Liberty for shares of USA. Following such exchange and after giving effect to the Vivendi Transaction, Holdco and USANi LLC will become wholly owned, thereby simplifying USA's corporate and capital structure. These transactions will reduce the amount of minority interest recorded by USA.

YEAR ENDED DECEMBER 31, 2000 VS. YEAR ENDED DECEMBER 31, 1999

The Styleclick Transaction, the PRC Transaction, the Hotel Reservations

Network Transaction and the October Films/ PFE Transaction and the consolidation of HSN--Germany as of January 1, 2000 resulted in increases in net revenues, operating costs and expenses, other income (expense), minority interest and income taxes. The following 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 and 1999, respectively, nor are they necessarily indicative of future results of operations.

#### INTERACTIVE

HSN--U.S.

Net revenues in 2000 increased by \$200.4 million, or 15.0%, to \$1.5 billion from \$1.3 billion in 1999, resulting primarily from Home Shopping Network's core business, which generated increased sales of \$152.0 million and HSN.com, which generated increased sales of \$39.9 million on revenues of \$41.6 million. Total units shipped increased to 33.4 million units compared to 32.0 million units in 1999, and the average price point increased to \$48.90 per unit as compared to \$45.47 in 1999. Furthermore, the return rate decreased to 19.9% from 20.3% in 1999. Cost related to revenues and other costs and expenses in 2000 increased by \$178.3 million, or 15.9%, to \$1.3 billion from \$1.1 billion in 1999 due primarily to higher sales volume and higher selling and marketing costs. Adjusted EBITDA in 2000 increased by \$22.1 million, or 10.3%, to

\$236.8 million from \$214.7 million in 1999. Adjusted EBITDA excludes amortization of cable distribution fees of \$36.3 million in 2000 and \$26.7 million in 1999. Excluding one-time charges and benefits, Adjusted EBITDA increased \$15.8 million, to \$230.4 million from \$214.7 million in 1999. One time charges and benefits include 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.

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#### TICKETING OPERATIONS

Net revenues in 2000 increased by \$75.9 million, or 17.1%, to \$518.6 million from \$442.7 million in 1999, resulting primarily from an increase of 11% in the number of tickets sold and an increase in revenue per ticket to \$5.71 from \$5.25 in 1999. The percentage of tickets sold online for 2000 is approximately 25%. Cost related to revenues and other costs and expenses in 2000 increased by \$69.8 million, or 20.0%, to \$419.2 million from \$349.4 million in 1999. The increase resulted primarily from higher ticketing operations costs as a result of higher ticketing volume, including commission expenses and credit card processing fees. Adjusted EBITDA in 2000 increased by \$6.0 million, or 6.5%, to \$99.3 million from \$93.3 million in 1999. Excluding one-time items, Adjusted EBITDA in 2000 increased by \$6.7 million, or 7.2%, to \$100.0 million from \$93.3 million in 1999. 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.

#### HOTEL RESERVATIONS

Net revenues in 2000 increased by \$203.9 million to \$328.0 million from \$124.1 million in 1999 due to the acquisition of Hotel Reservations Network in May 1999 as well as the expansion by HRN of affiliate marketing programs, an increase in the number of hotels for existing cities and expansion into new cities. As a percentage of revenues, Internet generated sales increased to 93% in 2000 from 81% in 1999. Cost related to revenues and other costs and expenses in 2000 increased by \$170.1 million to \$275.3 million from \$105.2 million in 1999 due primarily to increased sales, including an increased percentage of revenue attributable to affiliate and travel agent sales (for which commissions are paid), increased credit card charge backs, 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. Adjusted EBITDA in 2000 increased by \$33.7 million to \$52.6 million from \$18.9 million in 1999. As noted, Hotel Reservations Network was acquired by USA in May 1999. On a pro forma basis, 2000 revenues increased by \$166.2 million and Adjusted EBITDA increased by \$28.3 million.

#### TELESERVICES

Precision Response was acquired in April 2000. Actual revenues and Adjusted EBITDA for 2000 was \$212.5 million and \$35.2 million, respectively. On a pro forma basis, net revenues for the year ended December 31, 2000 increased by \$66.2 million, or 30.7%, to \$282.1 million from \$215.9 million in 1999. The increase resulted from growth of new business, including Netcare services, which generated new client revenues of \$14.3 million in 2000. Cost related to revenues and other costs and expenses for the year ended December 31, 2000 increased by \$51.9 million, or 28.0%, to \$237.5 million from \$185.5 million in 1999 due primarily to increased operations. Adjusted EBITDA for the year ended December 31, 2000 increased by \$14.3 million, or 46.9%, to \$44.6 million from \$30.4 million in 1999.

Net revenues in 2000 increased by \$20.1 million to \$29.1 million compared to \$9.0 million in 1999 due to the acquisition of the personals companies, Match.com.com and Web Media Ventures in June 1999 and September 1999, respectively. Cost related to revenues and other costs and expenses in 2000 increased by \$13.5 million to \$22.9 million in 2000 from \$9.4 million, resulting primarily from higher operating costs to support the increased sales volumes and increased fees paid to distribution partners. Adjusted EBITDA in 2000 increased by \$6.6 million to \$6.2 million in 2000 from a loss of \$0.4 million.

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## HSN--INTERNATIONAL AND OTHER

Net revenues for 2000 increased by \$272.1 million to \$281.0 million from \$8.9 million in 1999 due to the consolidation of HSN--Germany as of January 1, 2000. Revenues in 1999 related to Home Shopping Espanol. Cost related to revenues and other costs and expenses in 2000 increased by \$252.9 million to \$266.3 million from \$13.4 million in 1999 and Adjusted EBITDA in 2000 increased by \$19.2 million to \$14.7 million from a loss in 1999 of \$4.5 million. Costs related to revenues and other costs and Adjusted EBITDA increased due to the consolidation of HSN--Germany as of January 1, 2000. On a pro forma basis, 2000 revenues increased by \$105.3 million and Adjusted EBITDA increased by \$2.9 million. These results were dampened by the impact of the Euro exchange rate decline against the dollar, which resulted in lower equivalent U.S. dollar revenue of \$35.3 million and lower Adjusted EBITDA of \$3.9 million as compared to 1999.

## CITYSEARCH AND RELATED

Net revenues in 2000 increased by \$23.6 million, or 86.2%, to \$50.9 million compared to \$27.3 million in 1999. The increase resulted from expansion into new cities. Cost related to revenues and other costs and expenses in 2000 increased by \$29.6 million, or 33.7%, to \$117.2 million from \$87.8 million in 1999 due primarily to increased costs due to the expansion of local city guides into new markets. Adjusted EBITDA loss in 2000 widened by \$6.0 million to \$66.4 million from \$60.4 million in 1999. Excluding one-time items, Adjusted EBITDA loss widened by \$3.5 million to \$63.9 million from \$60.4 million in 1999. One-time items include \$2.5 million of non-recurring costs related to the merger of Ticketmaster and TMCS in 2000.

## ELECTRONIC COMMERCE SOLUTIONS/STYLECLICK

Net revenues in 2000 decreased by \$2.6 million to \$46.6 million compared to \$49.2 million in 1999 due to decreases in the Company's auction sites of \$12.2 million as compared to 1999. The decrease is due to the merger of ISN and Styleclick and the integration of the ISN sites with the Styleclick technology, resulting in a period of 2000 where no significant sales occurred, offset partially by increases in ECS teleservices and Short Shopping contextual selling spots, including spots during USA Network's coverage of the US Open. Cost related to revenues and other costs and expenses in 2000 increased by \$16.0 million due primarily to start-up costs incurred to launch the business initiatives and other overhead expenses, offset partially by lower marketing expenditures related to the auction business. Adjusted EBITDA loss in 2000 increased by \$18.6 million. Styleclick was acquired by USA in July 2000. On a pro forma basis, net revenue for the segment decreased \$6.9 million and the Adjusted EBITDA loss widened \$15.2 million as compared to 1999.

As a result of the 2000 losses and anticipated operating losses of Styleclick at that time, and the continuing evaluation of the operations and technology, Styleclick determined the goodwill recorded in conjunction with the Styleclick Merger was impaired and recorded a write-down of \$145.6 million as goodwill amortization as of December 31, 2000.

## ENTERTAINMENT

## CABLE AND STUDIOS

Net revenues in 2000 increased by \$220.4 million, or 16.9%, to \$1.5 billion from \$1.3 billion in 1999 due primarily to an increase in advertising revenues at USA Network and a significant increase in advertising revenues and affiliate revenues at Sci Fi Channel due to an increase in subscribers. Ratings and affiliate revenues increased at both networks. Net revenues at Studios USA increased due primarily to increased productions for USA Network and Sci Fi Channel, increased deliveries of network drama and reality productions, and increased performance of talk shows. Note that Studios USA defers revenue recognition for internally produced series for USA Network and Sci Fi Channel until the

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product is aired on the networks. Cost related to revenues and other costs and expenses in 2000 increased by \$106.7 million, or 12.3%, to \$977.5 million from \$870.8 million in 1999, resulting primarily from costs associated with the increased revenues of all of the businesses, offset partially by efficient use

of programming and increased usage of internally developed product by USA, resulting in reduced program amortization. Adjusted EBITDA in 2000 increased by \$113.8 million, or 26.2%, to \$547.7 million from \$433.9 million in 1999.

#### EMERGING NETWORKS

Net revenues increased by \$19.1 million to \$20.3 million in 2000 from \$1.2 million in 1999 due to the acquisition of Trio and NewsWorld International on May 19, 2000. Prior to this acquisition, the results reflect only SciFi.com. Cost related to revenue increased by \$23.3 million in 2000 as compared to 1999 due primarily to the increased revenues as well as start-up initiatives. Adjusted EBITDA loss in 2000 increased by \$4.1 million.

#### FILMED ENTERTAINMENT

Net revenues in 2000 increased by \$21.3 million, or 32.9%, to \$86.1 million compared to \$64.8 million in 1999 due primarily to increased revenues generated in the first quarter from theatrical, foreign and television revenues, partially offset by fewer theatrical releases in the last nine months of the year. Cost related to revenues and other costs and expenses in 2000 increased by \$34.4 million due to higher film costs. Adjusted EBITDA loss in 2000 widened by \$13.1 million. USA Films was acquired by USA in May 1999. On a pro forma basis, 2000 revenues increased by \$4.0 million and Adjusted EBITDA loss widened by \$13.0 million.

#### DEPRECIATION AND AMORTIZATION, NON-CASH COMPENSATION AND OTHER INCOME (EXPENSE)

Depreciation and amortization increased \$369.1 million to \$693.6 million from \$324.5 million, due primarily to the impact on goodwill of the Styleclick Transaction and the PRC Transaction and the full year impact of the Hotel Reservations Network Transaction and the October Films/ PFE Transaction. Note that the Company recorded a one-time write-down of the Styleclick goodwill of \$145.6 million in 2000. On a pro forma basis, depreciation and amortization increased \$243.2 million. Amortization of non-cash distribution and marketing expense of \$11.6 million in 2000 relates to expense associated with warrants issued by HRN in connection with exclusive affiliate distribution arrangements and advertising provided by USA Cable to Ticketmaster Online-Citysearch ("TMCS") in consideration of equity interests. Amortization of non-cash compensation expense increased to \$12.7 million from \$6.6 million in 1999. The expense relates to non-cash charges for the Company's bonus stock purchase program, restricted stock awards, and certain stock option grants.

For the year ended December 31, 2000, net interest expense decreased by \$14.3 million, compared to 1999 primarily due to lower borrowing levels as a result of the repayment of bank debt in 1999 from the proceeds of equity transactions involving Universal and Liberty.

In 2000, the Company 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.

In the year ended December 31, 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, HRN.

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In the year ended December 31, 1999, the Company realized pre-tax gains of \$89.7 million related to the sale of securities and \$10.4 million from the reversal of equity losses which were originally recorded in 1998 when the Company made an election to have Universal buy out the Company's interest in a joint venture established in the Universal Transaction.

#### INCOME TAXES

USA's effective tax rate of 52.0%, computed before the impact of the Styleclick goodwill write-off, for which there was no tax impact, for the year ended December 31, 2000 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. The rate would have been higher if not for the impact of the one-time gain from the Styleclick merger and the write-off of the investments to fair value.

#### MINORITY INTEREST

Minority interest primarily represented Universal's and Liberty's ownership interest in USANi LLC, Liberty's ownership interest in Holdco, the public's ownership interest in TMCS, the public's ownership interest in HRN since February 25, 2000, the public's ownership interest in Styleclick since July 27, 2000 and the other partners ownership interest in HSN-Germany since its consolidation as of January 1, 2000.

## DISCONTINUED OPERATIONS

USAB is presented as a discontinued operation for all periods presented. The net loss for USAB for 2000 was \$59.4 million, compared to a loss of \$44.1 million in 1999.

## PRO FORMA FINANCIAL INFORMATION FOR USA INTERACTIVE

The Company has recently completed/ announced some very significant transactions, including USA's acquisition of a controlling interest in Expedia (which closed February 4, 2002) and the contribution of the USA Entertainment Group to VUE (transaction pending). Subject to the close of the pending contribution of the entertainment assets to VUE, the Company will be renamed "USA Interactive," and will be a leader in integrated interactivity focused on integrating interactive assets across multiple lines of business, no longer to be engaged in the general entertainment businesses. Due to the significance of these transactions, we have presented below separate pro forma information for USA Interactive. The pro forma combined condensed statements of operations reflects USA's audited statements of operations, adjusted for the pro forma effects of the contribution of the USA Entertainment Group to VUE, the acquisition of Expedia, as well as the completion of the acquisitions of Styleclick and PRC and the merger of Ticketmaster and TMCS, as if such transactions had occurred at the beginning of the periods presented. The pro forma information also includes the estimated impact of disengagement of Home Shopping programming from the USAB stations.

The Vivendi Transaction is subject to USA shareholder vote, including the approval of 66 2/3% of the outstanding USA common stock and USA preferred stock, voting together as a single class, and excluding shares held by Vivendi, Liberty, Mr. Diller and their respective affiliates, as well as other customary regulatory approvals, and there can be no assurance that the transaction will be completed.

THE PRO FORMA COMBINED CONDENSED STATEMENTS OF OPERATIONS ARE NOT NECESSARILY INDICATIVE OF THE RESULTS OF OPERATIONS WHICH ACTUALLY WOULD HAVE BEEN REPORTED HAD THESE TRANSACTIONS OCCURRED AS OF THE BEGINNING OF JANUARY 1, 2000, NOR ARE THEY NECESSARILY INDICATIVE OF USA INTERACTIVE'S FUTURE RESULTS OF OPERATIONS.

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## UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENTS OF OPERATIONS--USA INTERACTIVE

TWELVE MONTHS ENDED DECEMBER 31, -----	
----- 2001	2000 -----
----- NET	
REVENUES HSN--U.S.	
(a).....	.....
\$1,658,904	\$1,533,271
Ticketing.....	.....
579,679	518,565
Hotel Reservations	
Network.....	536,497
327,977	
Expedia(b).....	.....
296,936	156,656
Precision	
Response.....	298,678
282,120	
Match.com.....	.....
49,249	29,122
HSN--International and	
other(c).....	272,569
245,714	
Citysearch.....	.....
46,107	50,889
ECS/	
Styleclick.....	.....
34,230	48,492
Intersegment	
elimination.....	(7,053) -
-	-----
Total net	
revenues.....	.....
3,765,796	3,192,806
Operating costs and expenses:	
Cost related to	
revenues.....	2,424,580
2,117,995	Other costs and
expenses.....	982,425
838,506	Disengagement
costs(d).....	4,052 --
Amortization of non cash distribution and	
marketing	
expense(e).....	.....
26,384	11,665
Amortization of non cash	
compensation expense(f)...	24,204
76,941	
Amortization of cable distribution	
fees.....	43,975
36,322	Depreciation and
amortization.....	493,959
648,408	
-----	-----
Total operating costs and	
expenses.....	3,999,579
3,729,837	----
-----	-----
Operating	
loss.....	\$
(233,783)	\$ (537,031)
Adjusted	

EBITDA..... \$  
358,791 \$ 236,305

ADJUSTED EBITDA--INTERACTIVE PRO FORMA

The following is a reconciliation of pro forma operating income to Adjusted EBITDA for 2001 and 2000.

TWELVE MONTHS ENDED DECEMBER 31, -----	
----- 2001	2000 -----
----- Operating	
loss.....	.....
\$(233,783)	\$(537,031)
Depreciation and	
amortization.....	493,959
648,408	Amortization of cable distribution
fees.....	43,975 36,322
Amortization of	
non-cash distribution and marketing	
expense.....	.....
26,384 11,665	Amortization of non-cash
compensation expense.....	24,204 76,941
Disengagement	
expenses.....	4,052 -- -
-----	----- Adjusted
EBITDA.....	\$
358,791	\$ 236,305 -----

(a) Includes estimated revenue in 2000 generated by homes lost by HSN following the sale of USA Broadcasting to Univision of \$6.2 million.

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- (b) Expedia results derived from public filings, and represent results for the twelve months ended December 31, 2001, adjusted for acquisitions made by Expedia during the year.
- (c) Includes impact of foreign exchange fluctuations, which reduced revenues by \$44.0 million and \$36.3 million in 2001 and 2000, respectively, if the results are translated from Euros to U.S. dollars at a constant exchange rate, using 1999 as the base year.
- (d) Represents costs incurred related to the disengagement of HSN from USA Broadcasting stations. Amounts primarily related to payments to cable operators and related marketing expenses in the disengaged markets.
- (e) Amortization of warrants and stock issued in exchange for distribution and marketing services.
- (f) Expense related to the Company's bonus stock purchase program, restricted stock awards and certain stock option grants.

Provided below is managements discussion and analysis related to Expedia. The information is derived from public filings. All other business segments are covered above.

EXPEDIA

Net revenues in calendar year 2001 increased by \$140.3 million, or 89.5%, to \$296.9 million from \$156.7 million in 2000, resulting from a 62% increase in total gross bookings (to 2.9 billion from 1.8 billion--note that Expedia became the leader in gross bookings among online travel agencies in Q4 2001), a favorable trend in Expedia.com conversion rates, as it averaged 5.85% in 2001 as compared to 4.68% in 2000, and a significant increase in cumulative purchasing customers--6.3 million at the end of 2001 compared to 2.9 million in 2000. Cost related to revenues and other costs and expenses in 2001 increased by \$40.6 million, or 20.8%, to \$236.1 million from \$195.4 million in 2000 due primarily due to increased sales. Note that expenses increased at a much lower rate than revenues as the Company began to realize efficiencies of scale in 2001 due to increased transaction volume at low incremental costs. Adjusted EBITDA in 2001 increased by \$99.6 million to \$60.9 million from a loss in 2000 of \$38.8 million. Adjusted EBITDA excludes non-cash distribution and marketing expense of \$16.4 million and \$64.2 million in 2001 and 2000, respectively.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$669.9 million for the twelve months ended December 31, 2001 compared to \$372.5 million for the twelve months ended December 31, 2000. These cash proceeds and available cash and borrowings were used to pay for acquisitions of \$201.0 million, to make capital expenditures of \$143.5 million, and to make mandatory tax distribution payments to the LLC partners of \$17.4 million. Furthermore, during 2001 the Company invested \$105.5 million in Hot Networks, a company operating electronic retailing operations in Europe in which the Company holds an equity stake, and \$20.0 million in National Leisure Group, a consolidator of cruise vacation



packages.

In December 2000, the Company announced that Univision Communications Inc. ("Univision") would acquire, for \$1.1 billion in cash, 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. In August 2001, the Company completed the sale. The gain on the sale of the stations was \$517.8 million for the twelve months ended December 31, 2001. As of December 31, the Company has received proceeds of \$510.4 million. The remaining receivable of \$589.6 million was collected in January 2002.

On February 12, 1998, USA and USANi LLC, as borrower, entered into a credit agreement that provided for a \$1.6 billion credit facility. Of that amount, \$1.0 billion was permanently repaid in prior

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years. The term of the \$600.0 million revolving credit facility expires on December 31, 2002, although it is anticipated that the facility will expire as a result of the Vivendi Transaction. As of December 31, 2001, there was \$595.4 million available for borrowing after taking into account outstanding letters of credit.

On February 28, 2001, the Company made a mandatory tax distribution payment to Universal and Liberty in the amount of \$17.4 million. On February 29, 2000, the Company made a mandatory tax distribution payment to Universal and Liberty in the amount of \$68.1 million. On February 28, 2002, the Company expects to make the mandatory tax distribution payment related to 2001 in the amount of \$153.5 million.

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 will distribute, in the United States and Canada, certain Polygram Filmed Entertainment, Inc. theatrical films that were not acquired in the transaction. The advance is repaid as revenues are received under the distribution agreement and, in any event, will be repaid in full at maturity. Through December 31, 2001, approximately \$180.1 million has been offset against the advance, including \$59.8 million in 2001. Interest accrued on the loan through December 31, 2001 is approximately \$19.4 million, including \$3.9 million in 2001.

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

On February 20, 2002, USA acquired 936,815 shares of Expedia common stock for approximately \$47.0 million.

In July 2000, USA announced that its Board of Directors authorized the extension of the Company's stock repurchase program providing for the repurchase of up to 20 million shares of USA's common stock over an indefinite period of time, on the open market or in negotiated transactions. The amount and timing of purchases, if any, will depend on market conditions and other factors, including USA's overall capital structure. Funds for these purchases will come from cash on hand or borrowings under the Company's credit facility. During the twelve months ended December 31, 2001, the Company made no purchases of its common stock through this program. During the twelve months ended December 31, 2000, the Company purchased 5.7 million shares of its common stock for aggregate consideration of \$125.5 million.

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

As of December 31, 2001, the Company has \$978.4 million of cash on hand and \$171.5 million of marketable securities. After the closing of the Vivendi Transaction, USA expects to have \$3.0 billion of

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cash on hand. Furthermore, the Company's existing \$600.0 million credit facility is expected to expire at that time. As of December 31, 2001, \$595.4 million was

available for borrowing after taking into account outstanding letters of credit.

USA anticipates that it will need to invest working capital towards the development and expansion of its overall operations. The Company anticipates that it will make a significant number of acquisitions, which could result in 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. See Note 7 of the Notes to Consolidated Financial Statements for a discussion of commitments and contingencies and unrecorded commitments as of the balance sheet date.

In 2001, USA did not pay any cash dividends. In relation to the Expedia transaction, the Company issued approximately 13.1 million of 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. The first dividend was due for the period ending February 15, 2002. USA's wholly-owned subsidiaries have no material restrictions on their ability to transfer amounts to fund USA's operations.

#### SEASONALITY

USA's businesses are subject to the effects of seasonality. Cable and Studios revenues are influenced by advertiser demand and the seasonal nature of programming, and generally peak in the spring and fall.

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 occasionally impacted by fluctuation in the availability of events for sale to the public.

Hotel reservations revenues are influenced by the seasonal nature of holiday travel in the markets it serves, and has historically peaked in the fall. As the business expands into new markets, the impact of seasonality is expected to lessen.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### INTEREST RATE RISK

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's short-term investment portfolio and issuance of debt. The Company does not use derivative financial instruments in its investment portfolio. The Company has a prescribed methodology whereby it invests its excess cash in debt instruments of government agencies and high quality corporate issuers. The portfolio is reviewed on a periodic basis and adjusted in the event that the credit rating of a security held in the portfolio has deteriorated.

At December 31, 2001, the Company's outstanding debt approximated \$578.7 million, substantially all of which is fixed rate obligations. If market rates decline, the Company runs the risk that the related required payments on the fixed rate debt will exceed those based on the current market rate.

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##### FOREIGN CURRENCY EXCHANGE RISK

The Company conducts business in certain foreign markets, primarily in the European Union. The Company has exposure to exchange rate fluctuations of the U.S. dollar to the Euro. However, the Company intends to reinvest profits from international operations in order to grow the businesses.

As the Company increases its operations in international markets it becomes increasingly exposed to potentially volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on the Company are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause the Company to adjust its financing and operating strategies.

As currency exchange rates change, translation of the income statements of the Company's international businesses into U.S. dollars affects year-over-year comparability of operating results. The Company does not hedge translation risks because cash flows from international operations are generally reinvested locally. Further, the Company does not enter into hedges to minimize volatility of reported earnings because the Company does not believe it is justified by the attendant cost.

Foreign exchange gains and losses were not material to the Company's earnings for the years ended December 31, 2001, 2000 and 1999.

##### EQUITY PRICE RISK

The Company has a minimal investment in equity securities of publicly-traded companies. This investment, as of December 31, 2001, was considered available-for-sale, with the unrealized gain deferred as a component of stockholders' equity. It is not customary for the Company to make significant investments in equity securities as part of its investment strategy.

#### SIGNIFICANT 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 access the recoverability of the carrying value of long-lived assets is disclosed in Footnote 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, 2001, the balance sheet includes \$7.2 billion of intangible assets, net, and \$424.1 million of fixed assets, net. Although it has not completed its assessment, the Company anticipates a write-off of \$325 million to \$425 million primarily related to the Citysearch and Precision Response ("PRC") businesses upon adoption of FAS 142. 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 discounted cash flows may not support current carrying values. The expected range for the Citysearch write-off is \$75 million to \$125 million and for PRC \$250 million to \$300 million.

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- Our revenue recognition for HSN is described in Footnote 2. As noted, sales are reduced by incentive discounts and sales returns to arrive at net sales. Home Shopping'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 2001 of 19.6% 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 estimated ultimate costs of completed television productions and filmed entertainment 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. Estimated ultimate revenues and costs are reviewed quarterly and revisions to amortization rates or write-downs to net realizable value are made as required. Actual ultimate revenue and expense may differ from estimates, as shifts in audience viewing habits, program time-slot changes, increased competition and other factors outside the Company's control could adversely impact actual results.
- Estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Footnote 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.
- HRN recognizes revenue for hotel rooms sold where HRN is the merchant on a gross basis. The Company considered Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," and believes that its income statement presentation for hotel rooms sold where HRN is the merchant is appropriate. Factors considered include HRN's ability to establish and change room pricing and HRN's risk of loss for unsold contracted rooms and prepaid rooms.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
USA NETWORKS, INC.

We have audited the accompanying consolidated balance sheets of USA Networks, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and the 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 schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USA Networks, Inc. and subsidiaries at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, 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  
January 29, 2002

USA NETWORKS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31,	-----	-----	-----	-----
	2001	2000	1999	
- (IN THOUSANDS, EXCEPT PER SHARE DATA) Product				
sales.....	\$1,935,542	\$1,799,932	\$1,370,790	Service
revenue.....				
3,349,265	2,796,220	2,000,955		-----
				---- Net
revenue.....				
5,284,807	4,596,152	3,371,745		Operating costs and
				expenses: Cost of sales-product
sales.....				1,287,630
				1,178,369
				900,896
				Cost of sales-service

revenue.....	1,194,251	894,532	
464,049 Program			
costs.....			
726,549 684,992 630,956 Selling and			
marketing.....	625,975		
530,013 392,307 General and			
administrative.....	444,039		
389,274 289,374 Other operating			
costs.....	116,702		
108,277 66,418 Amortization of cable distribution			
fees.....	43,975	36,322	26,680
Amortization of non-cash distribution and marketing			
expense.....			
26,384 11,665 -- Amortization of non-cash compensation			
expense.....	12,712	12,740	6,645
and amortization.....	572,765		
693,642 324,506 ----- Total			
operating costs and expenses.....			
5,050,982 4,539,826 3,101,831 -----			
----- Operating			
profit.....			
233,825 56,326 269,914 Other income (expense): Interest			
income.....			
30,199 41,024 31,048 Interest			
expense.....			
(78,637) (75,242) (79,592) Gain on sale of			
securities.....	-- --	89,721	
Gain on sale of subsidiary			
stock.....	-- 108,343 --	Loss in	
unconsolidated subsidiaries and other.....			
(52,223) (59,046) 5,771 -----			
(100,661) 15,079 46,948 -----			
Earnings from continuing operations before income taxes			
and minority			
interest.....	133,164		
71,405 316,862 Income tax			
expense.....			
(108,877) (112,869) (103,050) Minority			
interest.....			
(149,339) (47,124) (197,297) -----			
---- EARNINGS (LOSS) FROM CONTINUING			
OPERATIONS.....	(125,052)	(88,588)	16,515
Discontinued Operations, net of			
tax.....	-- (59,395)	(44,146)	Gain on
disposal of Broadcasting stations, net of tax.....			
517,847 -- -- ----- Earnings			
(loss) before cumulative effect of accounting change, net			
of tax.....	392,795		
(147,983) (27,631) Cumulative effect of accounting			
change, net of tax.....	(9,187)	-- --	
----- NET EARNINGS			
(LOSS).....			\$ 383,608
\$ (147,983) \$ (27,631) -----			
Earnings (Loss) per Share from Continuing Operations:			
Basic earnings (loss) per common			
share.....	\$ (.33)	\$ (.25)	\$ .05 Diluted
earnings (loss) per common share.....	\$		
(.33) \$ (.25) \$ .04 Earnings (Loss) per Share, before			
cumulative effect of accounting change Basic earnings			
(loss) per common share.....	\$ 1.05	\$	
(.41) \$ (.08) Diluted earnings (loss) per common			
share.....	\$ .61	\$ (.41)	\$ (.08) Net
Earnings (Loss) per Share: Basic earnings (loss) per			
common share.....	\$ 1.03	\$ (.41)	\$ (.08)
Diluted earnings (loss) per common			
share.....	\$ .60	\$ (.41)	\$ (.08)

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

USA NETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

DECEMBER 31, -----	2001	2000	--
----- (IN THOUSANDS, EXCEPT SHARE			
DATA) CURRENT ASSETS Cash and cash			
equivalents.....	\$ 978,377	\$	
244,223 Restricted cash			
equivalents.....	9,107	2,021	
Marketable			

securities.....	171,464		
126,352 Accounts and notes receivable, net of allowance of \$57,456 and \$61,141, respectively.....	672,935		
646,196 Receivable from sale of USAB.....	589,625	--	
Inventories, net.....	408,306		
404,468 Investments held for sale.....	--	750	Deferred tax
assets.....	59,635		
43,975 Other current assets, net.....	86,783	52,631	Net
current assets of discontinued operations.....	--		
7,788 -----			Total current
assets.....	2,976,232		
1,528,404 PROPERTY, PLANT AND EQUIPMENT Computer and broadcast equipment.....	368,475		
322,140 Buildings and leasehold improvements.....	146,162	132,874	
Furniture and other equipment.....	126,240	100,734	
Land.....			
15,665 15,658 Projects in progress.....	45,781		
45,084 -----	702,323	616,490	Less
accumulated depreciation and amortization.....			
(268,208) (172,496) -----	434,115	443,994	
OTHER ASSETS Intangible assets, net.....	7,236,283		
7,461,862 Cable distribution fees, net.....	158,880	159,473	Long-
term investments.....			
65,891 49,355 Notes and accounts receivable, net of current portion (\$99,819 and \$22,575, respectively, from related parties).....			
138,644 38,301 Advance to Universal.....	39,265		
95,220 Inventories, net.....	535,555		
485,941 Deferred charges and other, net.....	118,187	83,239	Net non-
current assets of discontinued operations.....	--		
128,081 -----	\$11,703,052	\$10,473,870	---
-----			

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

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USA NETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

DECEMBER 31, -----	2001	2000	-----
-----			(IN THOUSANDS, EXCEPT SHARE DATA)
CURRENT LIABILITIES Current maturities of long-term obligations.....	\$ 34,016	\$ 25,457	Accounts
payable, trade.....			
329,043 262,817 Accounts payable, client accounts.....	102,011	97,687	
Obligations for program rights and film costs.....	272,601	283,812	Cable distribution
fees payable.....	32,795	33,598	
Deferred revenue.....			
131,627 93,125 Income tax payable.....	221,502		
-- Other accrued liabilities.....	471,701		
376,751 -----			Total current
liabilities.....	1,595,296		
1,173,247 LONG-TERM OBLIGATIONS (net of current maturities).....	544,667	552,501	OBLIGATIONS FOR
PROGRAM RIGHTS AND FILM COSTS, net of current.....			
285,378 295,210 OTHER LONG-TERM LIABILITIES.....	51,354		
97,526 DEFERRED INCOME TAXES.....	312,487		
98,378 MINORITY INTEREST.....			

4,968,369	4,817,137	STOCKHOLDERS' EQUITY Preferred stock--\$.01 par value; authorized 15,000,000 shares; no shares issued and outstanding.....	--	--	Common stock--\$.01 par value; authorized 1,600,000,000 shares; issued and outstanding, 314,704,017 and 305,436,198 shares, respectively.....	3,147	3,055	Class B convertible common stock--\$.01 par value; authorized, 400,000,000 shares; issued and outstanding, 63,033,452	630	630
Additional paid-in capital.....										
3,918,401										
3,793,764 Retained earnings/Accumulated deficit.....										
181,267 (202,341)										
Accumulated other comprehensive loss.....										
(11,605) (10,825) Treasury stock.....										
(141,341) (139,414) Note receivable from key executive for common stock										
issuance.....										
(4,998) (4,998) ----- Total										
stockholders' equity.....										
3,945,501 3,439,871 ----- \$11,703,052										
\$ 10,473,870 -----										

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

USA NETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

CLASS B	RETAINED	ACCUM.	CONVERTIBLE	ADDIT.	EARNINGS	OTHER	COMMON	COMMON	PAID-IN	/(ACCUM.	COMP.	TREASURY	TOTAL
STOCK	STOCK	CAPITAL	DEFICIT)	INCOME	STOCK	STOCK	CAPITAL	DEFICIT)	INCOME	STOCK	STOCK	CAPITAL	DEFICIT)
-----													
- (IN THOUSANDS) BALANCE AT DECEMBER													
31, 1998..... \$2,571,405													
\$2,545	\$630	\$2,592,456	\$ (26,727)	\$	8,852	--	Comprehensive income: Net earnings for the year ended December 31, 1999.....	(27,631)	--	--	--	(27,631)	--
-- -- -- (27,631) -- -- Decrease in unrealized gains in available for sale securities.....													
(3,956) -- -- -- (3,956) -- Foreign currency translation.....													
(123) -- -- -- (123) -- ----- Comprehensive loss.....													
(31,710) --- ----- Issuance of common stock upon exercise of stock options.....													
47,967 111 -- 47,856 -- -- -- Income tax benefit related to stock options exercised.....													
42,362 -- -- -- Issuance of stock in connection with October Films/PFE Transaction.....													
23,558 12 -- 23,546 -- -- -- Issuance of stock in connection with other acquisitions.....													
4,498 3 -- 4,495 -- -- -- Issuance of stock in connection Liberty preemptive rights.....													
120,306 73 -- 120,233 -- -- -- Purchase of Treasury Stock in connection with stock repurchase program.....													
(8,933) (4) -- -- -- (8,929) Cancellation of employee equity program... (355) -- -- (442) -- -- (635) Amortization of unearned compensation related to stock options and equity participation plans.....													
631 -- -- --													
-----													
BALANCE AT DECEMBER 31, 1999.....													
2,769,729 2,740 630 2,830,506 (54,358) 4,773 (9,564)													
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) -----  
 Comprehensive  
 loss..... (163,581) --  
 ----- Issuance of common stock upon exercise of stock options.....  
 37,341 46 -- 37,295 -- -- -- Income tax benefit related to stock options exercised..... 26,968  
 -- -- 26,968 -- -- -- Issuance of stock in connection with PRC acquisition.....  
 887,371 322 -- 887,049 -- -- --  
 Issuance of stock in connection with other transactions.....  
 11,950 4 -- 11,946 -- -- -- Purchase of Treasury Stock.....  
 (129,907) (57) -- -- -- (129,850) --  
 -----  
 ----- BALANCE AT  
 DECEMBER 31, 2000.....  
 3,439,871 3,055 630 3,793,764 (202,341)  
 (10,825) (139,414) 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) -----  
 Comprehensive  
 Income..... 382,828 ----  
 ----- Issuance of common stock upon exercise of stock options.....  
 80,931 90 -- 80,841 -- -- -- Income tax benefit related to stock options exercised..... 38,439  
 -- -- 38,439 -- -- -- Issuance of stock in connection with other transactions.....  
 5,360 3 -- 5,357 -- -- -- Purchase of Treasury Stock..... (1,928)  
 (1) -- -- -- (1,927) -----  
 -----  
 ----- BALANCE AT DECEMBER 31, 2001..... \$3,945,501 \$3,147 \$630 \$3,918,401 \$ 181,267 \$ (11,605)  
 \$(141,341) -----  
 -----

NOTE RECEIVABLE FROM KEY EXECUTIVE FOR COMMON UNEARNED STOCK COMPENSATION ISSUANCE ----- (IN THOUSANDS) BALANCE AT DECEMBER 31, 1998..... \$ (1,353) \$ (4,998)  
 Comprehensive income: Net earnings for the year ended December 31, 1999..... -- --  
 Decrease in unrealized gains in available for sale securities..... -- -- Foreign currency translation..... -- --  
 Comprehensive  
 loss..... Issuance of common stock upon exercise of stock options..... -- --  
 - Income tax benefit related to stock options exercised..... -- --  
 Issuance of stock in connection with October Films/PFE Transaction..... -- -- Issuance of stock in connection with other acquisitions.....  
 -- -- Issuance of stock in connection Liberty preemptive rights..... -- --  
 Purchase of Treasury Stock in connection with stock repurchase program..... -- -- Cancellation



of employee equity program... 722 --  
Amortization of unearned compensation  
related to stock options and equity  
participation  
plans..... 631 -- -----  
--- ----- BALANCE AT DECEMBER 31,  
1999..... -- (4,998)  
Comprehensive income: Net loss for the  
year ended December 31,  
2000..... -- --  
Decrease in unrealized gains in  
available for sale securities.....  
-- -- Foreign currency  
translation..... -- --  
Comprehensive  
loss..... Issuance of  
common stock upon exercise of stock  
options..... -- -  
- Income tax benefit related to stock  
options  
exercised..... -- --  
Issuance of stock in connection with  
PRC  
acquisition.....  
-- -- Issuance of stock in connection  
with other  
transactions.....  
-- -- Purchase of Treasury  
Stock..... -- -- -----  
----- BALANCE AT DECEMBER 31,  
2000..... -- (4,998)  
Comprehensive income: Net Income for  
the year ended December 31,  
2001..... -- --  
Decrease in unrealized losses in  
available for sale securities.....  
-- -- Foreign currency  
translation..... -- --  
Comprehensive  
Income..... Issuance of  
common stock upon exercise of stock  
options..... -- -  
- Income tax benefit related to stock  
options  
exercised..... -- --  
Issuance of stock in connection with  
other  
transactions.....  
-- -- Purchase of Treasury  
Stock..... -- -- -----  
----- BALANCE AT DECEMBER 31,  
2001..... \$ -- \$ (4,998) -----  
-----

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

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

USA NETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	----- (IN THOUSANDS)
Cash flows from operating activities: Earnings (loss) from continuing operations:.....	\$	\$	\$	
(125,052)	(88,588)	16,515		Adjustments to reconcile net earnings (loss) from continuing operations to net cash provided by operating activities: Depreciation and amortization.....
	572,765	693,642		
	324,506			Amortization of cable distribution fees.....
	43,975	36,322	26,680	Amortization of program rights and film costs.....
	651,145	569,089		Amortization of deferred financing costs.....
	1,491	3,778	5,035	Non-cash distribution and marketing.....
	26,384			
	11,665	--	--	Deferred income taxes.....
	22,840	50,606		

9,458 Equity in (earnings) losses of unconsolidated affiliates and other..... 48,977

58,333 (1,356) Gain on sale of subsidiary stock..... -- (108,343) -- Gain on sale of securities..... -- -- (89,721) Non-cash interest income..... (3,729) (8,735) (298) Non-cash stock compensation..... 12,712 12,740 6,645 Minority interest..... 149,339

47,124 197,297 Changes in current assets and liabilities: Accounts receivable..... (18,081) (58,429) (44,519) Inventories..... 31,128 (45,767) (24,939) Accounts payable..... 27,981 (464) 12,782 Accrued liabilities and deferred revenue..... 78,025 42,408 61,648 Payment for program rights and film costs..... (835,541) (847,148) (611,702) Increase in cable distribution fees..... (47,393) (64,876) (42,887) Other, net..... (34,899) (12,906) (12,656) -----

- NET CASH PROVIDED BY OPERATING ACTIVITIES..... 669,932 372,507 401,577 Cash flows from investing activities: Acquisitions, net of cash acquired..... (201,024) (227,768) (195,504) Capital expenditures..... (143,511) (176,884) (108,916) Advance to Universal..... -- -- (200,000) Recoupment of advance to Universal..... 59,821 77,330 42,951 Increase in long-term investments and notes receivable.... (123,573) (34,969) (69,646) Purchase of marketable securities..... (51,977) (132,845) -- Proceeds from sale of securities..... -- -- 107,231 Proceeds from sale of broadcast stations..... 510,374 -- -- Payment of merger and financing costs..... -- (18,758) (4,765) Other, net..... 1,825 (10,662) 14,681 ----- NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES..... 51,935 (524,556) (413,968) Cash flows from financing activities: Borrowings..... 23,086 65,022 -- Principal payments on long-term obligations..... (22,331) (99,684) (339,349) Purchase of treasury stock..... (1,928) (129,907) (8,933) Payment of mandatory tax distribution to LLC partners..... (17,369) (68,065) (28,830) Proceeds from sale of subsidiary stock..... 12,234 93,189 4,268 Proceeds from issuance of common stock and LLC shares..... 80,932 210,642 422,544 Other, net..... (10,616) (12,851) 6,248 -----

NET CASH PROVIDED BY FINANCING ACTIVITIES..... 64,008 58,346 55,948 NET CASH USED BY DISCONTINUED OPERATIONS..... (48,058) (82,563) (66,260) Effect of exchange rate changes on cash and cash equivalents..... (3,663) (2,687) (123) ----- NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... 734,154 (178,953) (22,826) Cash and cash equivalents at beginning of period..... 244,223 423,176 446,002 ----- CASH AND CASH EQUIVALENTS AT END OF PERIOD..... \$ 978,377 \$ 244,223 \$ 423,176 -----

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

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

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

On December 17, 2001, USA and Vivendi Universal, S.A. ("Vivendi") announced a transaction (the "Vivendi Transaction") in which USA's Entertainment Group, consisting of USA Cable, Studios USA, and USA Films, would be contributed to Vivendi Universal Entertainment, a new joint venture controlled by Vivendi. See below for further discussion under "Subsequent Events".

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

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

A number of USA's businesses are currently held by two non-wholly owned subsidiaries, Home Shopping Network, Inc. ("Holdco") and USANi LLC. USA maintains control and management of Holdco and USANi LLC, and manages the businesses held by USANi LLC, in substantially the same manner as they would be if USA held them directly through wholly owned subsidiaries. The other principal owners of these subsidiaries are Liberty Media Corporation ("Liberty") and Vivendi, through Universal Studios, Inc ("Universal") and other subsidiaries. USA has the contractual right to require the exchange of the Holdco shares held by Liberty for shares of USA. Following such exchange and after giving effect to the Vivendi Transaction, Holdco and USANi LLC will become wholly owned, thereby simplifying USA's corporate and capital structure.

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## USA NETWORKS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 1--ORGANIZATION (CONTINUED)

## SUBSEQUENT EVENTS (UNAUDITED)

## EXPEDIA TRANSACTION

On February 4, 2002, USA completed its acquisition of a controlling interest in Expedia through a merger of one of its subsidiaries with and into Expedia. Immediately following the merger, USA owned all of the outstanding shares of Expedia Class B common stock, representing approximately 64.2% of Expedia's then outstanding shares, and 94.9% of the voting interest in Expedia. On February 20, 2002, USA acquired 936,815 shares of Expedia common stock, increasing USA's ownership to 64.6% of Expedia's then outstanding shares, with USA's voting percentage remaining at 94.9%. In the merger, USA issued to former holders of Expedia common stock who elected to receive USA securities an aggregate of 20.6 million shares of USA common stock, 13.1 million shares of \$50 face value 1.99% cumulative convertible preferred stock of USA and 14.6 million USA warrants. Expedia will continue to be traded on Nasdaq under the symbol "EXPE," the USA cumulative preferred stock trades on OTC under the symbol "USAIP" and the USA warrants trade on Nasdaq under the symbol "USAIW."

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

On December 17, 2001, USA announced it had entered into an agreement with Vivendi pursuant to which USA would contribute USA's Entertainment Group to a limited liability entity (Vivendi Universal Entertainment, "VUE") to be controlled by Vivendi, to which Vivendi would contribute the film, television and theme park businesses of Universal Studios, Inc. ("Universal"). Upon consummation of the Vivendi transaction, the joint venture will be controlled by Vivendi and its subsidiaries, with the common interests owned 93.06% by Vivendi, 5.44% by USA and 1.5% by Mr. Diller, Chairman and CEO of USA.

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

Related to the transaction, Liberty will exchange 7,079,726 shares of USANi LLC for shares of USA common stock, and subsequently transfer to Universal 25,000,000 shares of USA common stock,

## USA NETWORKS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 1--ORGANIZATION (CONTINUED)

its remaining 38,694,982 shares of USANi LLC, as well as the assets and liabilities of Liberty Programming France (which consist primarily of 4,921,250 shares of multiThematiques S.A., a French entity), in exchange for 37,386,436 Vivendi ordinary shares.

In addition, USA will issue to Universal ten-year warrants to acquire shares of USA common stock as follows: 24,187,094 shares at \$27.50 per share; 24,187,094 shares at \$32.50 per share; and 12,093,547 shares at \$37.50 per share. Barry Diller, USA's chairman and chief executive officer, will receive a common interest in VUE with a 1.5% profit sharing percentage, with a minimum value of \$275.0 million, in return for his agreeing to specified non-competition provisions and agreeing to serve as chairman and chief executive officer of VUE. USA and Mr. Diller have agreed that they will not compete with Vivendi's television and filmed entertainment businesses (including VUE) for a minimum of 18 months.

In February 2002, Mr. Diller assigned to three executive officers of USA, the right to receive beneficial interests in a portion of the common interests in VUE that Mr. Diller will receive upon closing of the transactions.

The Vivendi Transaction is subject to USA shareholder vote, including the approval of 66 2/3% of the outstanding USA common stock and USA preferred stock, voting together as a single class, and excluding shares held by Vivendi, Liberty, Mr. Diller and their respective affiliates, as well as other customary regulatory approvals, and there can be no assurance that the transaction will be completed.

## NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## CONSOLIDATION

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

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

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
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.

ELECTRONIC RETAILING

Revenues from Home Shopping primarily consist of merchandise sales and are reduced by incentive discounts and sales returns to arrive at net sales. Revenues for domestic sales are recorded for credit card sales upon transaction authorization, which occurs only if the goods are in stock, and for check sales upon receipt of customer payment, which does not vary significantly from the time goods are shipped. Revenues for international sales are recorded upon shipment. Home Shopping's sales policy allows merchandise to be returned at the customer's discretion within 30 days of the date of delivery. Allowances for returned merchandise and other adjustments are provided based upon past experience.

TICKETING

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

HOTEL RESERVATIONS

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

The Company offers rooms that are contracted for in advance or are prepaid. Unsold contracted rooms may be returned by the Company based on a cancellation period, which generally expires before the date the customer may cancel the hotel reservation. Customers are subject to a penalty for all

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

cancellations or changes to the reservation. The Company bears the risk of loss for all prepaid rooms and rooms cancelled by a customer subsequent to the period in which the Company can return the unsold rooms. To date, the Company has not

incurred significant losses under the room contracts with hotels.

#### OTHER

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

#### 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 year ended December 31, 2001 was \$42.2 million. Barter revenues for the year ended December 31, 2000 and 1999 are not material to USA's statement of operations.

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#### USA NETWORKS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 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 \$47.4 million and \$40.5 million at December 31, 2001 and 2000, respectively.

#### CASH AND CASH EQUIVALENTS

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

#### PROPERTY, PLANT AND EQUIPMENT

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

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

ASSET CATEGORY DEPRECIATION/AMORTIZATION PERIOD - -----

----- Computer and broadcast equipment.....	3 to 13 Years
Buildings.....	30 to 40 Years Leasehold
improvements.....	4 to 20 Years Furniture and other equipment.....
	3 to 10 Years

Depreciation and amortization expense on property, plant and equipment was \$151.9 million, \$115.6 million and \$61.2 million for the years ended December 31, 2001, 2000 and 1999, respectively.

#### LONG-LIVED ASSETS INCLUDING INTANGIBLES

The Company's accounting policy regarding the assessment of the recoverability of the carrying value of long-lived assets, including goodwill and other intangibles and property, plant and equipment, is to review the carrying value of the assets if the facts and circumstances suggest that they may be impaired. If this review indicates that the carrying value will not be recoverable, as determined based on the projected undiscounted future cash flows, the carrying value is reduced to its estimated fair value. See below under "New Accounting Pronouncements" for further information related to goodwill and other intangible assets. The Company amortizes goodwill and other intangible assets over their estimated useful lives, which range from 3 to 40 years for goodwill and 1 to 5 years for intangibles.

#### CABLE DISTRIBUTION FEES

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

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#### USA NETWORKS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) ADVERTISING

Advertising costs are primarily expensed in the period incurred. Advertising expense for the years ended December 31, 2001, 2000 and 1999 were \$195.8 million, \$176.5 million and \$119.2 million, respectively.

#### INCOME TAXES

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

#### EARNINGS (LOSS) PER SHARE

Basic earnings per share ("Basic EPS") excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised resulting in the issuance of common stock that then shares in the earnings of the Company.

#### STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation issued to employees in accordance with APB 25, "Accounting for Stock Issued to Employees." In cases where exercise prices are less than fair value as of the grant date, compensation is recognized over the vesting period. For stock-based compensation issued to non-employees, the Company accounts for the grants in accordance with FASB Statement No. 123, "Accounting for Stock Based Compensation."

#### MINORITY INTEREST

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

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

## ISSUANCES OF SUBSIDIARY STOCK

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

## USA NETWORKS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## ACCOUNTING ESTIMATES

Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with generally accepted accounting principles. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates.

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

## NEW ACCOUNTING PRONOUNCEMENTS

## GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, all calendar year companies will be required to adopt Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." The new rules eliminate amortization of goodwill and other intangible assets with indefinite lives and establish new measurement criterion for these assets. Although it has not completed its assessment, the Company anticipates a write-off of \$325 million to \$425 million primarily related to the Citysearch and Precision Response ("PRC") businesses. Although Citysearch and PRC are expected to generate positive cash flows in the future, due to cash flow discounting techniques to estimate fair value as required by the new rules, the future discounted cash flows may not support current carrying values. The expected range for the Citysearch write-off is \$75 million to \$125 million and for PRC \$250 million to \$300 million. The rules are expected to reduce USA's annual amortization by approximately \$350 million.

## FILM ACCOUNTING

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

SOP 00-2 was adopted as of January 1, 2001, and the Company recorded a one-time, non-cash expense of \$9.2 million. The expense is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.



NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
RECLASSIFICATIONS

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

NOTE 3--BUSINESS ACQUISITIONS

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

STYLECLICK TRANSACTION

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

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

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

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

In March 2001, Styleclick announced a new company organization designed to advance its offering of scaleable commerce services. The announcement included Styleclick's acquisition of the MVP.com

NOTE 3--BUSINESS ACQUISITIONS (CONTINUED)  
technology platform. Also in March 2001, the Styleclick Board elected two executives of ECS to top management positions at Styleclick, and certain senior executives of Styleclick left the Company. As of December 31, 2000, as a result of the historical and anticipated operating losses of Styleclick, and the continuing evaluation of the operations and technology, Styleclick determined the goodwill recorded in conjunction with the Styleclick Merger was impaired and recorded a write-down of \$145.6 million as goodwill amortization in fiscal 2000. In 2001, Styleclick began to focus on e-commerce services and technology while eliminating its online retail business. During this transition, Styleclick continued to incur significant net losses from operations that raise substantial doubt about Styleclick's ability to continue as a going concern. Styleclick is considering its options with respect to the situation. As of December 31, 2001, Styleclick has net liabilities of \$2.1 million.

## PRC TRANSACTION

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

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

## OCTOBER FILMS/PFE TRANSACTION

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

Also on May 28, 1999, USAi acquired from Universal the domestic film distribution and development business previously operated by PFE and PFE's domestic video and specialty video businesses. In connection with the transaction, USAi agreed to assume certain liabilities related to the PFE businesses acquired. In addition, USA advanced \$200.0 million to Universal pursuant to an eight year, full recourse, interest-bearing note in connection with a distribution agreement pursuant to which USAi will distribute, in the U.S. and Canada, certain Polygram theatrical films which were not acquired

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## USA NETWORKS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 3--BUSINESS ACQUISITIONS (CONTINUED)

in the transaction. The advance is repaid as revenues are received under the distribution agreement and, in any event, will be repaid in full at maturity. Through December 31, 2001, approximately \$180.1 million had been offset against the advance and \$19.4 million of interest had accrued.

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

## HOTEL RESERVATIONS NETWORK TRANSACTION

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

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

## BUSINESS ACQUISITION PRO FORMA RESULTS

The following unaudited pro forma condensed consolidated financial information for the years ended December 31, 2001 and 2000, is presented to show

the results of the Company, as if the Styleclick Transaction and the PRC Transaction, as well as the merger of Ticketmaster and Ticketmaster Online Citysearch had occurred at the beginning of the periods presented. The pro forma results include certain adjustments, including increased amortization related to goodwill and other intangibles and an increase in interest expense, and are not necessarily indicative of what the results would have been had the transactions actually occurred on the aforementioned dates. Note that the amounts exclude USAB, which is presented as a discontinued operation for 2000 (see Note 22).

YEARS ENDED DECEMBER 31, -----	2001	
2000 -----		(IN THOUSANDS, EXCEPT PER
		SHARE DATA) Net
revenues.....		
	\$5,284,807	\$4,667,690 Loss from continuing
operations.....		(126,588)
	(131,170) Basic and diluted loss per common share,	
		continuing
operations.....		
	\$ (.34)	\$ (.36) -----

The following unaudited pro forma condensed consolidated financial information for the year ended December 31, 1999, is presented to show the results of the Company as if the Styleclick Transaction, the PRC Transaction, the Hotel Reservations Network Transaction and the October Films/

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--BUSINESS ACQUISITIONS (CONTINUED)

PFE Transaction had occurred at the beginning of the period presented. The pro forma results include certain adjustments, including increased amortization related to goodwill and other intangibles and changes in film costs amortization, and are not necessarily indicative of what the results would have been had the transactions actually occurred on the aforementioned dates. Note that the amounts exclude USAB, which is presented as a discontinued operation (see Note 22).

YEAR ENDED DECEMBER 31, 1999 -----	(IN
	THOUSANDS, EXCEPT PER SHARE DATA) Net
revenues.....	
	\$3,648,827 Loss from continuing
operations.....	(20,515) Basic
	and diluted loss per common share, continuing
operations.....	
	\$ (.06) -----

NOTE 4--INTANGIBLE ASSETS

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

DECEMBER 31, -----	2001	2000	-----
			(IN THOUSANDS) Intangible Assets, net:
Goodwill.....			
	\$7,015,952	\$7,181,196	
Other.....			
	220,331	280,666	-----
			\$7,236,283 \$7,461,862
			-----

NOTE 5--LONG-TERM OBLIGATIONS

DECEMBER 31, ----- 2001 2000 -----  
 --- (IN THOUSANDS) Unsecured Senior Credit Facility ("New Facility"); with a \$40,000,000 sub-limit for letters of credit, entered into February 12, 1998, which matures on December 31, 2002. At the Company's option, the interest rate on borrowings is tied to the London Interbank Offered Rate ("LIBOR") or the Alternate Base Rate ("ABR"), plus an applicable margin. Interest rate at December 31, 2001 was 2.9%..... \$ -- \$ --  
 \$500,000,000 6 3/4% Senior Notes (the "Senior Notes") due November 15, 2005; interest payable May 15 and November 15 commencing May 15, 1999. Interest rate at December 31, 2001 was  
 6.75%..... 498,515  
 498,213 Unsecured \$37,782,000 7% Convertible Subordinated Debentures ("Savoy Debentures") due July 1, 2003 convertible into USAi Common Stock at a conversion price of \$33.22 per share.....

36,118	35,163	Other long-term obligations maturing through 2007.....	44,050	44,582	-----
Total long-term obligations.....			578,683		
			577,958	Less current maturities.....	(34,016)
(25,457) -----			Long-term obligations, net of current maturities.....		\$544,667 \$552,501 -----
-----					

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5--LONG-TERM OBLIGATIONS (CONTINUED)

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

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

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

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

YEARS ENDING DECEMBER 31, (IN THOUSANDS) -	-----
2002.....	\$ 34,016
2003.....	37,736
2004.....	1,073
2005.....	493,529
2006.....	921
Thereafter.....	11,408 ----- \$578,683 -----

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, -----	-----	-----	-----	(IN
2001	2000	1999		THOUSANDS)
Income tax expense at the federal statutory rate of				
35%.....	\$ 46,607	\$ 24,992	\$110,902	Amortization of goodwill and other intangibles.....
	84,818	81,797	21,448	TMCS and foreign losses not consolidated into group... 12,975
	84,838	43,912	State income taxes, net of effect of federal tax benefit.....	

11,796	11,205	11,941	Increase (decrease) in valuation allowance for deferred tax assets.....	--	10,219	-
			- Impact of minority interest.....		(69,786)	
			(96,485) (85,419) Barter media time.....		17,743	--
			-- Other, net.....			
4,724	(3,697)	266	Income tax expense.....			
\$108,877	\$112,869	\$103,050				

The components of income tax expense (benefit) are as follows:

YEARS ENDED DECEMBER 31, -----				
---- 2001 2000 1999 -----	(IN			
THOUSANDS) Current income tax expense:				
Federal.....	\$ 69,853	\$ 43,864	\$ 72,342	
State.....	13,874	8,846	18,993	
Foreign.....	2,310	9,553	2,257	
Current income tax expense.....	86,037	62,263		
93,592 Deferred income tax expense:				
Federal.....	17,583	42,213	7,238	
State.....	4,274	8,393	1,888	
Foreign.....	983	--	332	
Deferred income tax expense.....	22,840			
50,606 9,458 -----	Total			
income tax expense.....				
\$108,877	\$112,869	\$103,050		

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--INCOME TAXES (CONTINUED)

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

DECEMBER 31, -----	2001	2000	-----
----- (IN THOUSANDS) Current deferred tax assets (liabilities): Inventory costing.....	\$ 14,781		
\$ 17,269 Provision for accrued expenses.....	14,954	9,750	
Investments in affiliates.....	--	3,932	
Deferred revenue.....			
(48,933) (36,919) Film amortization.....	31,290	23,280	
Other.....			
64,429 43,549 -----	Total current deferred tax assets.....	76,521	60,861
Less valuation allowance.....			
(16,886) (16,886) -----	Net current deferred tax assets.....	\$ 59,635	\$ 43,975
Non-current deferred tax assets (liabilities): Broadcast and cable fee contracts.....	\$ 1,693	\$ 1,693	
Depreciation for tax in excess of financial statements....	(3,362)	(10,118)	
Amortization of FCC licenses and broadcast related intangibles.....			
(478) (478) Amortization of tax deductible goodwill.....	(101,072)	(67,108)	
Programming costs.....	23,860		
37,833 Investment in subsidiaries.....	27,165		

15,866 Gain on sale of subsidiary stock.....	(215,001)	(46,415)	Net federal operating loss carryforward.....
	99,432	40,350	Deferred revenue.....
	(8,955)		Warrant
Amortization.....			
	(10,835)	--	
Other.....			
(24,309) (16,545) -----			Total non-current deferred tax liabilities:.....
(53,877) -----			Less valuation allowance.....
(100,468)			
(44,501) -----			Net non-current deferred tax liabilities.....
\$ (312,487) \$ (98,378)			
-----			Total deferred tax liabilities.....
\$ (252,852) \$			
(54,403) -----			

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

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

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--COMMITMENTS AND CONTINGENCIES

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

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

YEARS ENDING DECEMBER 31, (IN THOUSANDS) -	-----
2002.....	\$ 65,008
2003.....	40,069
2004.....	34,198
2005.....	22,523
2006.....	16,611
Thereafter.....	110,970 ----- \$289,379 -----

Expenses charged to operations under these agreements were \$89.8 million, \$80.0 million and \$61.6 million for the years ended December 31, 2001, 2000 and 1999, respectively.

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

Unrecorded commitments for program rights consist of programs for which the license period has not yet begun or the program is not yet available to air. As

of December 31, 2001, the unrecorded commitments amounted to \$968.0 million. Annual commitments are \$153.8 million in 2002, \$173.5 million in 2003, \$189.1 million in 2004, \$155.0 million in 2005, \$112.4 million in 2006 and \$184.2 million in 2007 and thereafter.

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

NOTE 8--INVENTORIES

DECEMBER 31, 2001	DECEMBER 31, 2000	-----	-----
		CURRENT	NONCURRENT
		-----	-----
		CURRENT	NONCURRENT
		-----	-----
	(IN THOUSANDS)	Film costs: Released, net	of amortization.....
		\$ --	\$229,129
		\$ --	\$227,635 In process and
		unreleased.....	-- 57,483 --
		79,460 Programming costs, net of	amortization.....
		\$209,798	248,943
		\$172,499	178,846 Sales merchandise,
		net.....	197,145 --
		230,343	--
Other.....			
1,363	-- 1,626	--	-----
		---	
Total.....			
\$408,306	\$535,555	\$404,468	\$485,941
		-----	-----

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8--INVENTORIES (CONTINUED)

The Company estimates that approximately 90% of unamortized film costs at December 31, 2001 will be amortized within the next three years.

NOTE 9--STOCKHOLDERS' EQUITY

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

DESCRIPTION OF COMMON STOCK AND CLASS B CONVERTIBLE COMMON STOCK

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

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

NOTE RECEIVABLE FROM KEY EXECUTIVE FOR COMMON STOCK ISSUANCE

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

STOCKHOLDERS' AGREEMENT

Mr. Diller, Chairman of the Board and Chief Executive Officer of the Company, through BDTV, INC., BDTV II, INC., BDTV III, INC., BDTV IV, INC., his own holdings and pursuant to the Stockholders Agreement with Universal, Liberty,

the Company and Vivendi (the "Stockholders Agreement"), has the right to vote approximately 14.4% (45,291,540 shares) of USA's outstanding common stock, and 100% (63,033,452 shares) of USA's outstanding Class B Common Stock. Each share of Class B Common Stock is entitled to ten votes per share with respect to matters on which Common and Class B stockholders vote as a single class. As a result, Mr. Diller controls 71.5% of the outstanding total voting power of the Company. Mr. Diller, subject to the Stockholders Agreement, is effectively able to control the outcome of nearly all matters submitted to a vote of the Company's

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--STOCKHOLDERS' EQUITY (CONTINUED)

stockholders. Liberty HSN holds substantially all of the economic interest in, and Mr. Diller holds all of the voting power in, the shares of USAi stock held by the BDTV entities listed above.

RESERVED COMMON SHARES

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

STOCK-BASED WARRANTS

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

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

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

In February 2000, HRN entered into other exclusive affiliate distribution and marketing agreements and issued 1,428,365 warrants to purchase class A common stock at the initial public offering price of \$16.00. Additionally, in November 2000, HRN entered into another affiliate distribution and marketing agreement and issued 95,358 warrants to purchase class A common stock at an exercise price of \$31.46. These 1,523,723 warrants are non-forfeitable, fully vested and exercisable

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--STOCKHOLDERS' EQUITY (CONTINUED)

and are not subject to any performance targets. HRN has deferred the cost of



\$17.7 million for these warrants, and is amortizing the cost over the term of the affiliate agreements, which range from two to five years. During the twelve months ended December 31, 2001 and 2000, HRN amortized \$5.0 million and \$4.3 million of the warrant costs, respectively.

#### EXPEDIA TRANSACTION

As noted in Footnote 1, on February 4, 2002 the Company completed its acquisition of a controlling interest in Expedia. In the merger, USA issued to former holders of Expedia common stock who elected to receive USA securities an aggregate of 20.6 million shares of USA common stock, 13.1 million shares of \$50 face value 1.99% cumulative convertible preferred stock of USA and warrants to acquire 14.6 million shares of USA common stock at an exercise price of \$35.10. The holders of the USA Series A Cumulative Convertible Preferred Stock are entitled to 2 votes for each share of USA Series A Cumulative Convertible Preferred Stock held on all matters presented to such shareholders. Each share of USA Series A Cumulative Convertible Preferred Stock is convertible, at the option of the holder at any time, into that number of shares of USA common stock equal to the quotient obtained by dividing \$50 by the conversion price per share of USA common stock. The initial conversion price is equal to \$33.75 per share of USA common stock. The conversion price will be adjusted downward if the share price of USA common stock exceeds \$35.10 at the time of conversion. Each USA warrant gives the holder the right to acquire one share of USA common stock at an exercise price of \$35.10 through February 4, 2009. The USA cumulative preferred stock trades on OTC under the symbol "USAIP" and the USA warrants trade on Nasdaq under the symbol "USAIW."

#### VIVENDI TRANSACTION

As noted in Footnote 1, on December 17, 2001, USA announced it had entered into an agreement with Vivendi pursuant to which USA would contribute USA's Entertainment Group to a joint venture with Vivendi, which joint venture would also hold the film, television and theme park businesses of Universal In relation to the transaction, USA will issue shares of common stock and warrants to acquire shares of USA common stock, and USA will cancel shares of USANi LLC that are exchangeable into shares of USA common stock. Pro forma for the Vivendi Transaction and after giving effect to the exchange of all of Liberty's Holdco shares, Liberty, through companies owned by Liberty and Mr. Diller, would own approximately 10.2% of USA's outstanding common stock and 79.3% of USA's outstanding Class B common stock, Vivendi (through subsidiaries), would own approximately 11.4% of USA's outstanding common stock and 20.7% of USA's outstanding Class B common stock and the public shareholders, including Mr. Diller and other USA officers and directors, will own approximately 78.4% of USA's common stock. Vivendi's ownership, however, will be in the form of 43.2 million shares of USA common stock and 13.4 million shares of Class B common stock (for a total of 56.6 million USA shares), which shares Vivendi is committed to hold to back a portion of the preferred interest that USA will receive in connection with the Vivendi Transaction described below. The preferred is to be settled by Universal at its then face value with a maximum of approximately 56.6 million USA common shares, provided that Universal may substitute cash in lieu of shares of USA common stock (but not USA Class B common stock), at its election. If USA's share price exceeds \$40.82 per share at the time of settlement, fewer than 56.6 million shares would be cancelled.

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#### USA NETWORKS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### NOTE 9--STOCKHOLDERS' EQUITY (CONTINUED)

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

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

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

##### NOTE 10--LITIGATION

In the ordinary course of business, the Company is engaged in various lawsuits, including a certain class action lawsuit initiated in connection with

the Vivendi Transaction. In the opinion of management, the ultimate outcome of the various lawsuits should not have a material impact on the liquidity, results of operations or financial condition of the Company.

NOTE 11--BENEFIT PLANS

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

NOTE 12--STOCK OPTION PLANS

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

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

The Company also has outstanding options to outside directors under one plan (the "Directors Plan") which provides for the grant of options to purchase the Company's common stock at not less than fair market value on the date of the grant. The options under the Directors Plan vest ratably, generally over three years from the date of grant and expire not more than 10 years from the date of

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--STOCK OPTION PLANS (CONTINUED)

grant. A summary of changes in outstanding options under the stock option plans following the Company's two-for-one stock split, is as follows:

DECEMBER 31, -----						
2001	2000	1999	-----			
PRICE PRICE PRICE	SHARES RANGE	SHARES	-----			
RANGE SHARES RANGE	-----		-----			
(SHARES IN THOUSANDS) Outstanding at beginning of period..... 88,755 \$						
1-\$28	75,955	\$ 1-\$37	78,428	\$ 1-\$37		
Granted or issued in connection with						
\$19-\$28	\$ 4-\$28	\$16-\$28				
mergers.....						
	7,503	19,526	10,007			
Exercised.....						
(9,116)	\$ 1-\$28	(4,277)	\$ 1-\$20			
	(11,155)	\$ 1-\$13				
Cancelled.....						
(2,716)	\$ 3-\$28	(2,449)	\$ 6-\$37	(1,325)		
\$ 6-\$18						
----- Outstanding at end of						
period.....	84,426	\$ 1-\$28				
88,755	\$ 1-\$28	75,955	\$ 1-\$37	-----		
-----						
Options						
exercisable..... 63,023						
\$ 1-\$37	56,968	\$ 1-\$28	47,987	\$ 1-\$37		
-----						
----- Available for						
grant.....	10,379					
33,628	27,225	-----				

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

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

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

OPTIONS OUTSTANDING			
OPTIONS EXERCISABLE -			
-----			
-----			
-----			
-----			
-----			
-----			
-----			
-----			
-----			
-----			
-----			
-----			
---			
(IN THOUSANDS) \$			
0.01 to \$			
5.00.....			
18,418	3.9	\$ 4.72	
18,224	\$ 4.72	\$ 5.01	
	to		
\$10.00.....			
32,301	5.0	8.30	
32,137	8.31	\$10.01 to	
\$15.00.....			
4,959	6.5	12.43	3,470
	12.40	\$15.01 to	
\$20.00.....			
9,613	7.2	18.76	4,151
	18.75	\$20.01 to	
\$25.00.....			
14,348	8.4	22.75	
2,947	22.42	\$25.01 to	
\$27.91.....			
4,787	8.1	27.67	2,094
	27.86	-----	-----
84,426	5.7	12.51	
63,023	9.49	-----	--
	----		

Pro forma information regarding net income and earnings per share is required by SFAS 123. The information is determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair market value method. The fair value for these options

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--STOCK OPTION PLANS (CONTINUED)  
 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001, 2000 and 1999: risk-free interest rates of 5.0%; a dividend yield of zero; a volatility factor of .72, .62, and .44, respectively, based on the expected market price of USAi Common Stock based on historical trends; and a weighted-average expected life of the options of five years.

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

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

YEARS ENDED DECEMBER

31, -----  
----- 2001 2000  
1999 -----  
----- (IN THOUSANDS,  
EXCEPT PER SHARE DATA)  
Pro forma net income  
(loss).....  
\$303,277 \$(209,183)  
\$(68,858) Pro forma  
basic earnings  
(loss)..... \$  
0.81 \$ (0.58) \$ (.21)  
Pro forma diluted  
earnings  
(loss)..... \$  
0.75 \$ (0.58) \$ (.21)

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

NOTE 13--STATEMENTS OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED  
DECEMBER 31, 2001:

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

For the twelve months ended December 31, 2001, the Company incurred non-cash distribution and marketing expense of \$26.4 million and non-cash compensation expense of \$12.7 million, including \$4.9 million related to an agreement with an executive.

In 2001 the Company realized pre-tax losses of \$30.7 million on equity losses in unconsolidated subsidiaries, resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2001 the Company realized pre-tax losses of \$18.7 million related to the write-off of equity investments to fair value. The write-off in equity investments was based upon management's estimate of the current value of the investments, considering the current business environment, financing opportunities of the investees, anticipated business plans and other factors. Note that the majority of investments were in Internet related companies.

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13--STATEMENTS OF CASH FLOWS (CONTINUED)  
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED  
DECEMBER 31, 2000:

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

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

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

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

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

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

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

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

In 2000 the Company realized pre-tax losses of \$7.9 million on equity losses in unconsolidated subsidiaries resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2000 the Company also realized pre-tax losses of \$46.1 million related to the write-off of equity investments to fair value. The write-off in equity investments was based upon management's estimate of the current value of the investments, considering the current business environment, financing opportunities of the investees, anticipated business plans and other factors. Note that the majority of investments were in Internet related companies.

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 1999:

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

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

On June 14, 1999, TMCS completed the acquisition of Match.com.com, Inc ("Match.com.com"), an Internet personals company. In connection with the acquisition, TMCS issued approximately

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13--STATEMENTS OF CASH FLOWS (CONTINUED)

1.9 million shares of TMCS Class B Common Stock to the former owners of Match.com.com representing a total purchase price of approximately \$43.3 million.

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

On September 18, 1999, TMCS acquired certain assets associated with the entertainment city guide portion of the Sidewalk.com web site ("Sidewalk") from Microsoft Corporation ("Microsoft"). The Company also entered into a four year distribution agreement with Microsoft pursuant to which the Company became the exclusive provider of local city guide content on the Microsoft Network ("MSN") and the Company's internet personals web sites became the premier provider of personals content to MSN. In addition, the Company and Microsoft entered into additional cross-promotional arrangements. TMCS issued Microsoft 7.0 million shares of TMCS Class B Common Stock. The fair value of the consideration provided in exchange for the Sidewalk assets and distribution agreement amounted to \$338.0 million.

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

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

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

In 1999, the Company leased an airplane which was accounted for as a capital lease in the amount of \$20.8 million. See Note 14.

For the year ended December 31, 2000, the Company incurred non-cash compensation expense of \$6.6 million.

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

YEARS ENDED DECEMBER 31, -----			
----- 2001 2000 1999 -----			
(IN THOUSANDS) CASH PAID DURING THE PERIOD			
FOR:			
Interest.....	\$39,285	\$38,946	\$51,368
			Income tax

payments.....	36,083
22,343 35,556 Income tax	
refund.....	1,053
	1,662 632

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14--RELATED PARTY TRANSACTIONS

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

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

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

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

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

Under the USANi LLC Operating Agreement, USANi LLC is obligated to make a distribution to each of the LLC members in an amount equal to each member's share of USANi LLC's taxable income at a specified tax rate. The estimated amount for 2001 is \$153.5 million and is expected to be paid on February 28, 2002. In March 2000, the Company made a mandatory tax distribution payment to Universal and Liberty in the amount of \$68.1 million related to the year ended December 31, 1999. The amount for the year ended December 31, 1998 was \$28.8 million and it was paid in March 1999.

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

Under a distribution agreement covering approximately fifty films owned by Universal, Films earns a distribution fee and remits the balance of revenues to a Universal entity. For the twelve month periods ending December 31, 2001 and 2000, Films earned distribution fees of approximately \$5.7 million and \$10.7 million, respectively, from the distribution of these films. Films is responsible for collecting the full amount of the sale and remitting the net amount after its fee to Universal, except for amounts applied against the Universal Advance (see Note 3).

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14--RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

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

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15--QUARTERLY RESULTS (UNAUDITED)

QUARTER ENDED 30, JUNE 30,	QUARTER ENDED MARCH 31,	QUARTER ENDED DECEMBER 31,	QUARTER ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31, 2001 Net
----- (IN THOUSANDS, EXCEPT PER SHARE DATA) -----				
revenues.....	\$1,346,475	\$1,255,818	\$1,369,711	\$1,312,803 Operating
profit.....	37,722	76,780	73,207	46,116
operations(a).....	(10,278)	(17,383)	(56,948)	(40,443)
earnings (loss) before cumulative effect of accounting change(a).....	39,551	(17,383)	427,575	39,551
Net earnings (loss)(a)(b).....	39,551	(17,383)	427,575	39,551
EARNINGS PER SHARE--CONTINUING OPERATIONS Basic and diluted loss per common share(d).....	(.03)	(.05)	(.15)	(.11)
EARNINGS PER SHARE--BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE Basic earnings (loss) per common share(d).....	(.03)	(.05)	1.14	.11
Diluted net earnings (loss) per common share(d).....	(.15)	.59	.09	(.05)
EARNINGS PER SHARE Basic net earnings (loss) per common share(d).....	(.15)	1.14	.11	(.07)
Diluted net earnings (loss) per common share(d).....	(.15)	.59	.09	(.07)
revenues.....	\$1,313,216	\$1,107,270	\$1,134,328	\$1,041,338 Operating
profit.....	(105,801)	22,027	58,083	82,017
Loss from continuing operations(e)(f).....	(62,297)	(6,688)	(12,503)	(7,100)
Net loss(e)(f)(g).....	(80,285)	(21,063)	(27,738)	(18,897)
EARNINGS PER SHARE--CONTINUING OPERATIONS Basic and diluted loss per common share(d).....	(.02)	(.04)	(.02)	(.17)
EARNINGS PER SHARE Basic and diluted net loss per common share(d).....	(.02)	(.04)	(.02)	(.22)
	(.06)	(.08)	(.06)	

- (a) The Company recorded losses of \$11.6 million, \$6.7 million and \$0.4 million during the fourth, third and second quarters of 2001, respectively, related to the write-down of equity investments to fair value. The Company recorded losses of \$15.6 million and \$30.5 million during the fourth and third quarters of 2000, respectively, related to the write-down of equity investments to fair value.
- (b) During the third and second quarters of 2001, the Company recorded pre-tax gains of \$468.0 million and \$49.8 million, respectively, related to the sale of the USAB stations.
- (c) During the first quarter of 2001, the Company adopted Statement of Position 00-2, "Accounting By Producers or Distributors of Films." The Company recorded expense of \$9.2 million related to the cumulative effect of adoption.

(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.

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15--QUARTERLY RESULTS (UNAUDITED) (CONTINUED)

- (e) The quarterly results include the operations of Styleclick.com since its acquisition on July 27, 2000, and PRC since its acquisition on April 5, 2000. During the third quarter of 2000, the Company recorded a pre-tax gain of \$104.6 million related to the Styleclick Transaction. During the fourth quarter of 2000, the Company recorded a pre-tax charge of \$145.6 million related to the impairment of Styleclick goodwill.
- (f) During the first quarter of 2000, the Company recorded a pre-tax gain of \$3.7 million related to the initial public offering of HRN.
- (g) USAB is presented as a discontinued operation for 2000. For the fourth, third, second and first quarters of 2000, the after tax results of USAB were \$18.0 million, \$14.4 million, \$15.2 million and \$11.8 million, respectively.
- (h) Earnings (loss) per common share data and shares outstanding retroactively reflect the impact of the two-for-one stock split of USA's common stock and Class B common stock paid on February 24, 2000. All share numbers give effect to such stock split.

NOTE 16--INDUSTRY SEGMENTS

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

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating profit plus (1) depreciation and amortization, (2) amortization of cable distribution fees of \$44.0 million, \$36.3 million and \$26.7 million in fiscal years 2001, 2000 and 1999, respectively (3) amortization of non-cash distribution and marketing expense and (4) disengagement expenses (described below) of \$4.1 million in 2001. Adjusted EBITDA is presented here as a tool and as a valuation methodology used by management in evaluating the business. Adjusted EBITDA does not purport to represent cash provided by operating activities. Adjusted EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Adjusted EBITDA may not be comparable to calculations of similarly titled measures presented by other companies.

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16--INDUSTRY SEGMENTS (CONTINUED)

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

TWELVE MONTHS ENDED DECEMBER 31, -----	-----	-----	-----
----- 2001	2000	1999	-----
----- Operating			
income.....			
\$233,825	\$ 56,326	\$269,914	Depreciation and amortization.....
572,765	693,642	324,506	Amortization of cable distribution fees.....
	43,975		Amortization of non-cash distribution and marketing.....
	26,384	11,665	-- Amortization of non cash compensation expense.....
	12,712	12,740	6,645
			Disengagement expenses.....
4,052	--	--	Adjusted EBITDA.....
\$893,713	\$810,695	\$627,745	-----



YEARS ENDED DECEMBER 31, -----	2001	2000	1999	-----
----- (IN THOUSANDS) REVENUES Cable and studios..... \$	1,633,130	\$ 1,525,124	\$ 1,304,683	HSN--U.S.
(a).....	1,658,904	1,533,271	1,332,911	
Ticketing.....	579,679	518,565	442,742	Hotel Reservations
Network.....	124,113	Precision	536,497	327,977
Response.....	212,471	--	298,678	
Match.com.....	49,249	29,122	9,000	Citysearch and related.....
related.....	27,329	Electronic Commerce Solutions/Styleclick.....	34,229	46,603
other(b).....	49,202	HSN--International and USA	272,569	245,715
Films.....	167,038	86,084	64,766	Trio, NWI, Crime, other emerging media.....
Other.....	--	--	6,894	Intersegment
Elimination.....	(15,360)	--	--	
TOTAL.....	\$ 5,284,807	\$ 4,596,152	\$ 3,371,745	-----

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16--INDUSTRY SEGMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	-----
----- (IN THOUSANDS) OPERATING PROFIT Cable and studios..... \$	486,667	\$ 435,116	\$ 320,878	HSN--U.S.(a),(c) 103,866
(a).....	130,442	137,670		
Ticketing.....	25,351	25,453	32,503	Hotel Reservations
Network.....	5,654	Precision	15,811	9,166
Response.....	(7,282)	--	(40,857)	
Match.com.....	(3,004)	(12,484)	(7,451)	Citysearch and related.....
related.....	(207,004)	(119,521)	Electronic Commerce Solutions/Styleclick.....	(73,145) (240,085)
other(b).....	(51,701)	HSN--International and USA	(34,907)	4,641
Films.....	(7,979)	(15,800)	868	Trio, NWI, Crime, other emerging media.....
other.....	(52,593)	(41,480)	--	Corporate & other.....
TOTAL.....	\$ 233,825	\$ 56,326	\$ 269,914	-----
ADJUSTED EBITDA Cable and studios..... \$	613,587	\$ 547,684	\$ 434,084	HSN--U.S.
(a).....	236,752	214,893		
Ticketing.....	106,248	99,375	93,432	Hotel Reservations
Network.....	18,891	Precision	81,449	52,641
Response.....	35,165	--	26,044	
Match.com.....	16,512	6,241	(400)	Citysearch and related.....
related.....	(66,356)	(60,444)	Electronic Commerce	(44,417)

Solutions/Styleclick.....	(58,364)	(60,227)
(41,652) HSN--International and		
other(b).....	(25,306)	10,740
(4,505) USA		
Films.....		
1,973 (6,592) 6,497 Trio, NWI, Crime, other emerging		
media.....	(11,467)	(7,120) (2,989)
Intersegment		
Elimination.....	(8,307)	--
-- Corporate &		
other.....	(34,519)	
(37,608) (30,062) -----		
TOTAL.....		\$
893,713 \$ 810,695 \$ 627,745 -----		

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16--INDUSTRY SEGMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, -----			
----- 2001 2000 1999 -----			
----- (IN THOUSANDS) ASSETS Cable and			
studios.....	\$		
4,847,480 \$ 4,818,352 \$ 4,821,905 HSN--			
U.S.....			
1,704,335 1,729,266 1,601,470			
Ticketing.....			
1,109,661 1,089,965 1,004,277 Hotel Reservations			
Network.....	643,835	555,613	
202,666 Precision			
Response.....	850,485		
795,531 --			
Match.com.....			
83,032 73,293 77,316 Citysearch and			
related.....	209,212		
364,631 573,632 Electronic Commerce			
Solutions/Styleclick.....	33,111	61,025	
28,623 HSN--International and			
other.....	212,549	133,654	
37,840 USA			
Films.....			
229,876 252,899 214,582 Trio, NWI, Crime, other			
emerging media.....	96,619	113,134	200
Corporate &			
other.....	1,682,857		
486,507 670,716 -----			
TOTAL.....			
\$11,703,052 \$10,473,870 \$ 9,233,227 -----			
----- DEPRECIATION AND AMORTIZATION OF			
INTANGIBLES AND CABLE DISTRIBUTION FEES Cable and			
studios.....	\$		
122,008 \$ 112,568 \$ 113,034 HSN--			
U.S.....			
122,115 106,059 83,796			
Ticketing.....			
80,897 73,922 60,846 Hotel Reservations			
Network.....	48,662	39,215	
13,237 Precision			
Response.....	66,901		
42,447 --			
Match.com.....			
19,516 18,725 7,051 Citysearch and			
related.....	106,700		
130,207 59,077 Electronic Commerce			
Solutions/Styleclick.....	14,589	179,854	
3,251 HSN--International and			
other.....	9,601	6,099	12 USA
Films.....			
9,952 9,208 5,629 Trio, NWI, Crime, other emerging			
media.....	8,666	6,124	-- Corporate &
other.....	7,133		
5,536 5,253 -----			
TOTAL.....			\$
616,740 \$ 729,964 \$ 351,186 -----			

USA NETWORKS, INC. AND SUBSIDIARIES

NOTE 16--INDUSTRY SEGMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	-----
----- (IN THOUSANDS) CAPITAL EXPENDITURES Cable and studios.....	\$			
12,907	\$ 15,229	\$ 6,771	HSN--	
U.S.....				
42,615	34,122	33,412		
Ticketing.....				
24,465	23,282	23,789	Hotel Reservations	
Network.....	16,022	2,859		
1,092	Precision			
Response.....	25,775			
43,505	--			
Match.com.....				
3,268	2,485	--	Citysearch and	
related.....	5,017	9,262		
11,328	Electronic Commerce			
Solutions/Styleclick.....	2,292	5,047	13,657	
HSN--International and				
other.....	6,031	18,105	13,746	
USA				
Films.....	7			
632	448	Trio, NWI, Crime, other emerging		
media.....	61	600	-- Corporate &	
other.....	5,051			
21,756	4,673	-----		
TOTAL.....	\$			
143,511	\$ 176,884	\$ 108,916	-----	

- (a) Includes estimated revenue in 2000 generated by homes lost by HSN following the sale of USA Broadcasting to Univision, which is estimated to be \$6.2 million. Adjusted EBITDA for these homes is estimated at \$0.9 million.
- (b) Includes impact of foreign exchange fluctuations, which reduced revenue by \$44.0 million and \$36.3 million in 2001 and 2000, respectively, if the results are translated from Euros to U.S. dollars at a constant exchange rate, using 1999 as the base year.
- (c) 2001 includes \$4.1 million of costs incurred related to the disengagement of HSN from USA Broadcasting stations. Amounts primarily related to payments to cable operators and related marketing expenses in the disengaged markets.

NOTE 17--FINANCIAL INSTRUMENTS

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

DECEMBER 31, 2001	DECEMBER 31, 2000	-----
----- CARRYING FAIR CARRYING FAIR		
AMOUNT VALUE AMOUNT VALUE -----		
----- (IN		
THOUSANDS) Cash and cash		
equivalents.....	\$	
978,377	\$ 978,377	\$ 244,223
Long-term		
investments.....		
65,891	65,891	49,355
Long-term		
obligations.....		
(578,683)	(578,683)	(577,958)
(577,958)		

NOTE 18--MARKETABLE SECURITIES AND INVESTMENTS HELD FOR SALE

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

GROSS GROSS UNREALIZED UNREALIZED ESTIMATED COST

GAINS LOSSES FAIR VALUE	-----	-----	-----
	---	-----	U.S. Government and
agencies.....	\$147,106	\$230	
\$(217) \$147,119	Non-US government securities and		
	other fixed Term		
obligations.....	22,350	-- --	22,350 Corporate debt
securities.....	1,970	25 --	
1,995	-----	-----	Total marketable
securities.....	171,426	255	
(217) 171,464	Investment held for		
sale.....	-----	-----	-----
	-----	-----	-----
Total.....	\$171,426	\$255	\$(217) \$171,464
	-----	-----	-----

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

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

AMORTIZED ESTIMATED COST FAIR VALUES	-----	-----
	---	Due in one year or
less.....	\$ 65,922	\$ 66,035
	Due after one year through two	
years.....	7,461	7,398
	Due after two	
through five years.....	22,977	
	22,956	Due over five
years.....	75,066	
	75,075	-----
Total.....	\$171,426	\$171,464
	-----	-----

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

GROSS GROSS UNREALIZED UNREALIZED ESTIMATED COST	-----	-----	-----
GAINS LOSSES FAIR VALUE	-----	-----	-----
	---	-----	Corporate debt
securities.....	\$ 81,066	\$ 9	
\$ (14) \$ 81,061	U.S. Government and		
agencies.....	26,928	118 (12)	
	27,034	Certificate of	
deposit.....	10,175	20 --	
	10,195	Treasury	
Bill.....	8,048		
14 -- 8,062	-----	-----	Total
marketable securities.....	126,217	161 (26)	126,352
	Investment held for		
sale.....	10,041	-- (9,291)	
	750	-----	-----
Total.....	\$136,258	\$161	\$(9,317) \$127,102
	-----	-----	-----

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

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 18--MARKETABLE SECURITIES AND INVESTMENTS HELD FOR SALE (CONTINUED)

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

AMORTIZED ESTIMATED COST FAIR VALUES	-----	-----
	---	Due in one year or
less.....	\$113,865	\$113,976
	Due after one year through two	
years.....	997	1,012
	Due after two	
through five years.....	2,002	2,019
	Due over five	
years.....	9,353	9,345
	-----	-----
Total.....	\$126,217	\$126,352
	-----	-----

NOTE 19--EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

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

AS OF AND FOR THE YEARS ENDED DECEMBER 31, -----	
-----	-----
2001	2000
----- (IN THOUSANDS) Current	
assets..... \$	
17,597	\$ 6,943 Noncurrent
assets.....	
157,274	42,784 Current
liabilities.....	
46,085	37,531 Noncurrent
liabilities.....	
194,249	23,668 Net
sales.....	
8,215	6,242 Gross
profit.....	
277	1,301 Net
loss.....	
(51,453)	(20,254)

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

NOTE 20--SAVOY SUMMARIZED HISTORICAL FINANCIAL INFORMATION

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

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 20--SAVOY SUMMARIZED HISTORICAL FINANCIAL INFORMATION (CONTINUED)  
SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, -----	
-----	-----
2001	2000 1999
--- (IN THOUSANDS) Net	
sales.....	
\$3,591	\$6,678 \$7,890 Operating
expenses..... 118	
3,236	3,431 Operating
income.....	
3,473	3,442 4,459 Net
income.....	
5,681	6,354 7,143

SUMMARY CONSOLIDATED BALANCE SHEETS

DECEMBER 31, -----	
-----	-----
2001	2000
--- (IN THOUSANDS) Current	
assets.....	
\$10,709	\$ -- Non-current
assets.....	
53,563	158,561 Current
liabilities.....	
4,861	17,021 Non-current
liabilities.....	
44,530	38,902

NOTE 21--PROGRAM RIGHTS AND FILM COSTS

As of December 31, 2001, the liability for program rights, representing future payments to be made under program contract agreements amounted to \$510.1 million. Annual payments required are \$259.3 million in 2002, \$156.6 million in 2003, \$70.8 million in 2004, \$17.0 million in 2005, \$3.9 million in 2006 and \$2.5 million in 2007 and thereafter. Amounts representing interest are \$48.1 million and the present value of future payments is \$462.0 million.

As of December 31, 2001, the liability for film costs amounted to \$95.9 million. Annual payments are \$51.6 million in 2002, \$42.4 million in 2003 and \$1.9 million in 2004.

NOTE 22--SALE OF USA BROADCASTING

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

NOTE 23--EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of Basic and Diluted earnings per share. All share numbers have been adjusted to retroactively reflect the impact of the two-for-one stock split of USA's

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USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 23--EARNINGS (LOSS) PER SHARE (CONTINUED)

common stock and Class B common stock paid on February 24, 2000. All share numbers give effect to such stock split.

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	-----
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONTINUING OPERATIONS: NUMERATOR: Earnings (loss).....	\$ (125,052)	\$ (88,588)	\$16,515	DENOMINATOR:
Denominator for basic earnings per share--weighted average shares.....	374,101	359,688	327,816	Effect of dilutive securities: Stock
options.....	--	--	40,111	LLC shares exchangeable into Common Stock.....
				Diluted weighted average shares.....
	374,101	359,688		
share.....	367,927	Basic earnings (loss) per share.....	\$ (.33)	\$ (.25)
share.....	\$ .05	Diluted earnings (loss) per share.....	\$ (.33)	\$ (.25)
				\$ .04

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	-----
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
EARNINGS (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX: NUMERATOR: Net earnings (loss).....	\$392,795	\$ (147,983)	\$ (27,631)	Elimination of minority interest.....
74,066 --				Numerator for diluted earnings (loss) per share.....
	\$466,861	\$ (147,983)	\$ (27,631)	DENOMINATOR:
Denominator for basic earnings per share--weighted average shares.....	374,101	359,688	327,816	Effect of dilutive securities: Stock
options.....	30,089	--	--	LLC shares exchangeable into Common Stock.....
				361,153 --
				Diluted weighted average shares.....
	765,343	359,688		
share.....	327,816	Basic earnings (loss) per share.....	\$ 1.05	\$ (.41)
share.....	(.08)	Diluted earnings (loss) per share.....	.61	\$ (.41)
				\$ (.08)

## USA NETWORKS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 23--EARNINGS (LOSS) PER SHARE (CONTINUED)

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	-----
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
NET EARNINGS (LOSS): NUMERATOR: Net earnings (loss).....	\$383,608	\$ (147,983)	\$ (27,631)	Elimination of minority interest.....
	74,066	--	--	-----
Numerator for diluted earnings (loss) per share.....	\$457,674	\$ (147,983)	\$ (27,631)	
DENOMINATOR: Denominator for basic earnings per share--weighted average shares.....	374,101	359,688	327,816	Effect of dilutive securities: Stock options.....
	30,089	--	--	LLC shares exchangeable into Common Stock.....
	361,153	--	--	-----
				Diluted weighted average shares.....
	765,343	359,688		
	327,816			Basic earnings (loss) per share.....
		\$ 1.03	\$ (.41)	\$
		(.08)		Diluted earnings (loss) per share.....
	.60	\$ (.41)	\$	
		(.08)		

## NOTE 24-- NOTES OFFERING AND GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

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

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

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

## USA NETWORKS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 24-- NOTES OFFERING AND GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION (CONTINUED)

As of and for the Year Ended December 31, 2001

WHOLLY OWNED NON- USANI	
SUBSIDIARY GUARANTOR USAI USAI	
HOLDCO LLC GUARANTORS	
SUBSIDIARIES ELIMINATIONS	
CONSOLIDATED -----	
-----	
-----	

----- Current  
assets..... \$  
585,212 \$ -- \$ 749,559 \$  
932,651 \$ 708,810 \$ -- \$  
2,976,232 Property and  
equipment net..... -- --  
24,755 198,971 210,389 --  
434,115 Goodwill and other  
intangible assets,  
net..... 71,598 -  
- 2,260 4,751,722 2,410,703 --  
7,236,283 Investment in  
subsidiaries..... 3,919,150  
1,319,505 7,159,969 101,680 --  
(12,500,304) -- Other  
assets.....  
92,111 -- 2,262 708,490  
960,170 (706,611) 1,056,422 --  
-----

----- Total  
assets.....  
\$4,668,071 \$1,319,505  
\$7,938,805 \$6,693,514 \$  
4,290,072 \$(13,206,915)  
\$11,703,052 -----  
-----

--- Current  
liabilities..... \$  
238,934 \$ -- \$ (15,540) \$  
836,754 \$ 535,148 \$ -- \$  
1,595,296 Long-term debt, less  
current  
portion.....  
-- -- 498,515 606 45,546 --  
544,667 Other  
liabilities.....  
483,636 -- 1,057,543 426,245  
604,437 (1,922,642) 649,219  
Minority  
interest..... -- --  
(141,390) (108,769) 442,450  
4,776,078 4,968,369  
Interdivisional  
equity..... -- -- --  
5,538,678 2,662,491  
(8,201,169) -- Stockholder's  
equity..... 3,945,501  
1,319,505 6,539,677 -- --  
(7,859,182) 3,945,501 -----  
-----

- ----- Total  
liabilities and shareholders'  
equity..... \$4,668,071  
\$1,319,505 \$7,938,805  
\$6,693,514 \$ 4,290,072  
\$(13,206,915) \$11,703,052 -----  
-----

-----  
Revenue.....  
\$ -- \$ -- \$ -- \$3,288,286 \$  
2,013,601 \$ (17,080) \$  
5,284,807 Operating  
expenses..... (10,725)  
-- (34,154) (2,745,705)  
(2,277,478) 17,080 (5,050,982)  
Interest expense,  
net..... (21,757) --  
4,650 (33,297) 1,966 --  
(48,438) Other income  
(expense), net.... (92,570)  
64,557 367,373 (4,399)  
(38,284) (348,900) (52,223)  
Provision for income  
taxes..... -- -- -- (95,560)  
(13,317) -- (108,877) Minority  
interest..... -- -- --  
- (211,471) 62,132 --  
(149,339) -----  
-----

- Net (loss) income from  
continuing operations.....



\$ (125,052) \$ 64,557 \$ 337,869  
 \$ 197,854 \$ (251,380) \$  
 (348,900) \$ (125,052) -----  
 -----  
 ----- Gain on disposal  
 of Broadcasting  
 Stations..... 517,847 -- --  
 -- -- -- 517,847 Net income  
 (loss) from cumulative effect  
 of accounting  
 change..... (9,187)  
 1,901 6,470 2,438 (11,625) 816  
 (9,187) -----  
 -----  
 Net income  
 (loss)..... \$ 383,608  
 \$ 66,458 \$ 344,339 \$ 200,292 \$  
 (263,005) \$ (348,084) \$  
 383,608 -----  
 -----  
 Cash flows from  
 operations..... \$ (36,116) \$ -  
 - \$ (25,770) \$ 590,779 \$ -  
 141,039 \$ -- \$ 669,932 Cash  
 flows used in investing  
 activities.....  
 31,993 -- (7,774) (65,279)  
 92,995 -- 51,935 Cash flows  
 from financing  
 activities.....  
 4,123 -- 745,346 (458,247)  
 (227,214) -- 64,008 Net Cash  
 used by discontinued  
 operations.....  
 -- -- -- (48,058) -- --  
 (48,058) Effect of exchange  
 rate..... -- -- (417) 269  
 (3,515) -- (3,663) Cash at the  
 beginning of the  
 period.....  
 -- -- 78,079 (28,949) 195,093  
 -- 244,223 -----  
 -----  
 -- Cash at the end of the  
 period.....  
 \$ -- \$ -- \$ 789,464 \$ (9,485)  
 \$ 198,398 \$ -- \$ 978,377 -----  
 -----  
 -----

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 24-- NOTES OFFERING AND GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION  
(CONTINUED)

As of and for the Year Ended December 31, 2000

WHOLLY OWNED USANI  
 SUBSIDIARY NON-  
 GUARANTOR USAI USAI  
 HOLDCO LLC  
 GUARANTORS  
 SUBSIDIARIES  
 ELIMINATIONS  
 CONSOLIDATED -----  
 -----  
 -----  
 -----  
 -----

Current  
 assets..... \$  
 356,726 \$ -- \$  
 14,159 \$ 899,892 \$  
 606,565 \$ (356,726)  
 \$ 1,520,616 Property  
 and equipment

net..... -- --  
 24,203 205,895  
 213,896 -- 443,994  
 Goodwill and other  
 intangible assets,  
 net.....  
 73,693 -- --  
 5,004,332 2,383,837  
 -- 7,461,862  
 Investment in  
 subsidiaries.....  
 3,210,513 1,284,166  
 6,888,058 -- --  
 (11,382,737) --  
 Other  
 assets.....  
 167,447 -- 15,229  
 797,320 136,032  
 (204,499) 911,529  
 Net current assets  
 of discontinued  
 operations.....  
 -- -- -- 3,766 4,022  
 -- 7,788 Net non  
 current assets on  
 discontinued  
 operations.....  
 -- -- -- (240,346)  
 54,091 314,336  
 128,081 -----

----- Total  
 assets.....  
 \$3,808,379  
 \$1,284,166  
 \$6,941,649  
 \$6,670,859 \$  
 3,398,443  
 \$(11,629,626)  
 \$10,473,870 -----

-----  
 Current  
 liabilities.....  
 \$ 12,406 \$ -- \$ -- \$  
 884,874 \$ 427,365 \$  
 (151,398) \$  
 1,173,247 Long-term  
 debt, less current  
 portion.... -- --  
 498,212 4,645 49,644  
 -- 552,501 Other  
 liabilities....  
 356,102 -- 243,333  
 270,824 487,301  
 (866,446) 491,114  
 Minority  
 interest.... -- --  
 60,373 177,184  
 439,699 4,139,881  
 4,817,137  
 Interdivisional  
 equity.....  
 -- -- -- 5,302,098  
 2,134,252  
 (7,436,350) --  
 Stockholders'  
 equity.....  
 3,439,871 1,284,166  
 6,139,731 31,234  
 (139,818)  
 (7,315,313)  
 3,439,871 -----

----- Total  
 liabilities and  
 shareholders'  
 equity.....  
 \$3,808,379  
 \$1,284,166

\$6,941,649  
 \$6,670,859 \$  
 3,398,443  
 \$(11,629,626)  
 \$10,473,870 -----  
 -----  
 -----  
 -----

Revenue.....

\$ -- \$ -- \$ --  
 \$3,108,099 \$  
 1,489,123 \$ (1,070)  
 \$ 4,596,152  
 Operating  
 expenses... (15,184)  
 -- (37,369)  
 (2,614,506)  
 (1,873,837) 1,070  
 (4,539,826) Interest  
 expense,  
 net.....  
 (26,195) -- 22,208  
 (28,263) (1,970) 2  
 (34,218) Other  
 income (expense),  
 net..... (48,551)  
 65,026 372,389  
 (112,323) (20,831)  
 (206,413) 49,297  
 Provision for income  
 taxes.....  
 1,342 -- (27,351)  
 (27,761) (59,099) --  
 (112,869) Minority  
 interest.... -- -- --  
 - 6,992 154,459  
 (208,575) (47,124) -  
 -----  
 -----  
 -----

Net (loss) income  
 from continuing  
 operations.....  
 \$ (88,588) \$ 65,026  
 \$ 329,877 \$ 332,238  
 \$ (312,155) \$  
 (414,986) \$ (88,588)  
 -----  
 -----  
 -----

- Net (loss) income  
 from discontinued  
 operations.....  
 (59,395) -- --  
 (59,334) (61) 59,395  
 (59,395) -----  
 -----  
 -----

----- Cash  
 flows from  
 operations.....  
 \$ (34,654) \$ -- \$  
 (9,403) \$ 402,056 \$  
 14,508 \$ -- \$  
 372,507 Cash flows  
 used in investing  
 activities.....  
 \$ 18,711 \$ -- \$  
 (63,754) \$ (207,548)  
 \$ (271,965) \$ -- \$  
 (524,556) Cash flows  
 from financing  
 activities.....  
 \$ 15,943 \$ -- \$  
 (125,442) \$  
 (112,456) \$ 280,301  
 \$ -- \$ 58,346 Net  
 Cash used by  
 discontinued  
 operations.....  
 -- -- -- (84,771)  
 2,208 -- (82,563)

Effect of exchange rate.....	
-- -- -- 3,352	
(6,039) -- (2,687)	
Cash at the beginning of the period.....	-- --
276,678 (27,067)	
173,565 -- 423,176 -	
-----	
-----	
Cash at the end of the period.....	
\$ -- \$ -- \$ 78,079 \$	
(26,434) \$ 192,578 \$	
-- \$ 244,223 -----	
-----	
-----	
-- -----	

USA NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 24-- NOTES OFFERING AND GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION (CONTINUED)

As of and for the Year Ended December 31, 1999

WHOLLY OWNED USANI  
 SUBSIDIARY NON-  
 GUARANTOR USAI USAI  
 HOLDCO LLC GUARANTORS  
 SUBSIDIARIES  
 ELIMINATIONS  
 CONSOLIDATED -----  
 -----  
 -----  
 --

Revenue.....			
\$ -- \$ -- \$ -- \$			
2,668,239 \$ 703,506 \$ -			
- \$ 3,371,745 Operating			
expenses..... (10,074)			
-- (27,171) (2,266,186)			
(798,400) --			
(3,101,831) Interest			
expense, net...			
(10,713) -- (11,837)			
(22,157) (3,837) --			
(48,544) Gain on sale			
of subsidiary			
stock..... -- -- --			
89,721 -- -- 89,721			
Other income (expense),			
net.....			
29,437 85,199 433,996			
49,599 21,026 (613,486)			
5,771 Provision for			
income			
taxes.....			
7,865 -- -- (81,882)			
(29,033) -- (103,050)			
Minority			
interest..... -- -- --			
- 91 56,650 (254,038)			
(197,297) -----			
-----			
- ----- Net			
(loss) income from			
continuing			
operations.....			
\$ 16,515 \$85,199			
\$394,988 \$ 437,425 \$			
(50,088) \$ (867,524) \$			
16,515 -----			
-----			
----- Net (loss)			

income from discontinued operations.....	\$ (44,146)	\$ --	\$ --	\$
	(44,968)	\$ 822	\$ 44,146	
-----				
--- Cash flows from operations.....				
	\$ (33,127)	\$ --		
	\$(31,200)	\$ 476,263	\$	
	(10,359)	\$ --	\$ 401,577	
Cash flows used in investing activities.....				
	\$(401,082)	\$ --		
	\$(53,645)	\$ 34,754	\$	
	6,005	\$ --	\$ (413,968)	
Cash flows from financing activities.....				
	\$ 434,209	\$ --	\$ 212,973	
	\$ (570,075)	\$ (21,159)		
	\$ --	\$ 55,948	Net cash	
used by discontinued operations.....				
	-- -- --	(49,317)		
	(16,943)	--	(66,260)	
Effect of exchange rate.....				
	-- -- -- --	(123)	--	
	(123)	Cash at the		
beginning of the period.....				
	--	--	--	--
	- 151,160	102,954		
	191,888	--	446,002	----
-----				
Cash at the end of the period.....				
	\$ --	\$ --	\$ 279,288	\$
	(5,421)	\$ 149,309	\$ --	
	\$ 423,176	=====		
	=====	=====		
	=====	=====		

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

PART III

The information required by Part III (Items 10, 11, 12 and 13) has been incorporated herein by reference to USA's definitive Proxy Statement to be used in connection with the 2002 Annual Meeting of Stockholders (the "2002 Proxy Statement") as set forth below, in accordance with General Instruction G(3) of Form 10-K.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to directors and executive officers of USA is set forth in the section entitled "Item 1--Election of Directors and Management Information" in the 2002 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding compensation of officers and directors of USA is set forth in the section entitled "Executive Compensation" in the 2002 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding ownership of USA's common stock, Class B common stock and preferred stock is set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the 2002 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Information regarding certain relationships and related transactions with USA is set forth in the section entitled "Certain Relationships and Related Party Transactions" in the 2002 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) List of Documents filed as part of this Report (1) -

Consolidated Financial Statements Report of Independent Auditors: Ernst & Young LLP. Consolidated Statement of Operations for the Years Ended December 31, 2001, 2000 and 1999.

Consolidated Balance Sheets as of December 31, 2001 and 2000.

Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999.

Consolidated Statements of Cash Flows for Years Ended December 31, 2001, 2000 and 1999.

Notes to Consolidated Financial Statements.

(2) -- Consolidated Financial Statement Schedules

SCHEDULE PAGE NUMBER NUMBER ----- II --  
Valuation and Qualifying

Accounts.....	132 (3)-- Home Shopping Network, Inc. and Subsidiaries Financial Statements Report of Independent Auditors: Ernst & Young LLP.....	133
Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999.....	134	Consolidated Balance Sheets as of December 31, 2001 and 2000.....
135	Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999.....	136
136	Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999.....	137
137	Notes to Consolidated Financial Statements.....	138 (4)-- USANi LLC and Subsidiaries Financial Statements Report of

Independent Auditors: Ernst & Young LLP.....	160
Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999.....	161 Consolidated Balance Sheets as of December 31, 2001 and 2000.....
162 Consolidated Statements of Members' Equity for the Years Ended December 31, 2001, 2000 and 1999.....	163 Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999.....
164 Notes to Consolidated Financial Statements.....	165

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

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

EXHIBIT PAGE NUMBER	DESCRIPTION
NUMBER - ----- ----- -----	
----- 2.1	Agreement and Plan of Exchange and Merger, dated as of August 25, 1996, by and among Silver King Communications, Inc., HouseAcquisition Corp., Home Shopping Network, Inc. and Liberty HSN, Inc., filed as Appendix B to USA's Definitive Proxy Statement, dated November 20, 1996, is incorporated herein by reference. 2.2
	Agreement and Plan of Merger by and among Silver King Communications, Inc., Thames Acquisition Corporation and Savoy Pictures Entertainment, Inc., as amended and restated as of August 13, 1996, filed as Appendix A to USA's Definitive Proxy Statement, dated November 20, 1996, is incorporated herein by reference.

DESCRIPTION  
NUMBER - -----  
-----  
-----

----- 2.3  
Investment  
Agreement,  
dated as of  
October 19,  
1997, among  
Universal  
Studios, Inc.,  
HSN, Inc., Home  
Shopping  
Network, Inc.  
and Liberty  
Media  
Corporation, as  
amended and  
restated as of  
December 18,  
1997, filed as  
Appendix A to  
USA's  
Definitive  
Proxy  
Statement,  
dated January  
12, 1998, is  
incorporated  
herein by  
reference. 2.4  
Amended and  
Restated  
Agreement and  
Plan of  
Reorganization,  
dated as of  
August 12,  
1998, among  
CitySearch,  
Inc., Tiberius,  
Inc., USA  
Networks, Inc.,  
Ticketmaster  
Group, Inc.,  
Ticketmaster  
Corporation and  
Ticketmaster  
Multimedia  
Holdings, Inc.,  
filed as  
Exhibit 10 to  
USA's Quarterly  
Report on Form  
10-Q for the  
quarter ended  
September 30,  
1998, is  
incorporated  
herein by  
reference. 2.5  
Agreement and  
Plan of Merger,  
dated as of  
March 20, 1998,  
by and among  
USA, Brick  
Acquisition  
Corp. and  
Ticketmaster  
Group, Inc.,  
filed as  
Exhibit 10.61  
to USA's Annual  
Report on Form  
10-K for the  
fiscal year  
ended December  
31, 1997, is  
incorporated  
herein by  
reference. 2.6  
Agreement and  
Plan of Merger,  
dated as of



January 12, 2000, by and among Precision Response Corporation, USA and P Acquisition Corp., filed as Exhibit 1 to USA's Schedule 13D filed on January 19, 2000, is incorporated herein by reference. 2.7 Amended and Restated Agreement and Plan of Recapitalization and Merger, dated as of July 15, 2001, by and among USA Networks, Inc., Expedia, Inc., Taipei, Inc., Microsoft Corporation and Microsoft E-Holdings, Inc., filed as Annex A to USA's Registration Statement on Form S-4 (No. 333-68120), is incorporated herein by reference. 2.8 Transaction Agreement, dated as of December 16, 2001, among Vivendi Universal, S.A., Universal Studios, Inc., USA Networks, Inc., USANi LLC and Liberty Media Corporation, filed as Appendix A to USA's Definitive Proxy Statement, dated March 25, 2002, is incorporated herein by reference. 3.1 Restated Certificate of Incorporation of USA filed as Exhibit 3.1 to USA's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000, is incorporated herein by reference. 3.2 Amendment to Restated Certificate of Incorporation of USA, filed as Exhibit A

the USA's  
 Definitive  
 Information  
 Statemet, filed  
 on November 19,  
 2001, is  
 incorporated  
 herein by  
 reference. 3.3+  
 Amendment to  
 By-Laws of USA,  
 dated January  
 31, 2002. 188  
 3.4+ Amended  
 and Restated  
 By-Laws of USA.  
 189 4.1  
 Indenture,  
 dated as of  
 November 23,  
 1998, among  
 USA, USANi LLC,  
 the Guarantors  
 party thereto,  
 and The Chase  
 Manhattan Bank,  
 as Trustee,  
 filed as  
 Exhibit 4.1 to  
 USA's  
 Registration  
 Statement on  
 Form S-4 (No.  
 333-71305) (the  
 "USA S-4"), is  
 incorporated  
 herein by  
 reference. 4.2  
 Form of 6 3/4%  
 Senior Notes  
 due 2005  
 (included as  
 Exhibit B to  
 Exhibit 4.1 to  
 the USA S-4).

EXHIBIT PAGE NUMBER DESCRIPTION NUMBER - ----- ----- -----
----- 4.3+ Certificate of Designations of Series A Cumulative Convertible Preferred Stock of USA. 208 4.4 Indenture, dated as of June 25, 1993, for the Savoy 7% Convertible Subordinated Debentures due July 1, 2003, filed as Exhibit 4(d) to Savoy's S-1 Registration Statement No. 33-63192, is incorporated herein by reference. 4.5 First Supplemental Indenture, dated as of October 24,

1993, for the Savoy 7% Convertible Debentures due July 1, 2003, filed as Exhibit 4(e) to Savoy's S-1 Registration Statement No. 33-70160, is incorporated herein by reference. 4.6

Second Supplemental Indenture, dated as of December 17, 1993, for the Savoy 7% Convertible Debentures due July 1, 2003, filed as Exhibit 4(e) to Savoy's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, is incorporated herein by reference. 4.7

Third Supplemental Indenture, dated as of December 19, 1996, for the Savoy 7% Convertible Debentures due July 1, 2003 filed as Exhibit 4.1 to Savoy's Form 8-K, dated December 19, 1996, is incorporated herein by reference. 4.8+

Equity Warrant Agreement, dated as of February 4, 2002, between USA and The Bank of New York, as equity warrant agent. 226 10.1 Form of Affiliation Agreements between USA and Home Shopping, filed as Exhibit 10.2 to USA's Registration Statement on Form 10, as amended, is incorporated herein by reference.

10.2\* Form of 1992 Stock Option and Restricted Stock Plan between USA and Home Shopping, filed as

Exhibit 10.6 to  
USA's  
Registration  
Statement on  
Form 8, as  
amended, is  
incorporated  
herein by  
reference. 10.3

Form of  
Indemnification  
Agreement,  
filed as  
Exhibit 10.10  
to USA's  
Registration  
Statement on  
Form 10, as  
amended, is  
incorporated  
herein by  
reference. 10.4

Form of Loan  
Agreement, as  
amended, by and  
between Silver  
King Capital  
Corporation,  
Inc. and  
Roberts  
Broadcasting  
Company of  
Denver, filed  
as Exhibit  
10.17 to USA's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
August 31,  
1994, is  
incorporated  
herein by  
reference. 10.5

Form of  
Shareholder  
Agreement by  
and among  
Silver King  
Capital  
Corporation,  
Inc., Roberts  
Broadcasting  
Company of  
Denver, Michael  
V. Roberts and  
Steven C.  
Roberts, filed  
as Exhibit  
10.18 to USA's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
August 31,  
1994, is  
incorporated  
herein by  
reference. 10.6

Limited  
Liability  
Company  
Agreement,  
Funding  
Agreement and  
Form of First  
Amendment to  
LLC,  
Registration  
Rights  
Agreement and  
associated  
documents  
between USA,  
the Class A  
Shareholders of

Blackstar Communications, Inc. and Fox Television Stations, Inc., dated as of June 27, 1995 and August 18, 1995, filed as Exhibit 10.23 to USA's Annual Report on Form 10-K for the fiscal year ended August 31, 1995, are incorporated herein by reference.

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EXHIBIT PAGE NUMBER	DESCRIPTION
-----	-----
-----	-----
----- 10.7*	1986 Stock Option Plan for Employees, dated as of August 1, 1986, filed as Exhibit 10.33 to Home Shopping's Form S-1 Registration Statement No. 33-8560, is incorporated herein by reference.
10.8*	First, Second, Third and Fourth Amendments to the 1986 Stock Option Plan for Employees, filed as Exhibit 10.31 to Home Shopping's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, are incorporated herein by reference.
10.9*	Form of 1990 Executive Stock Award Program, dated as of October 17, 1990, as amended, filed as Exhibit 10.23 to Home Shopping's Annual Report on Form 10-K for the fiscal year ended August 31, 1991, is incorporated herein by reference.

10.10\* Home Shopping Network, Inc. Employee Stock Purchase Plan and Part-Time Employee Stock Purchase Plan, filed as Exhibit 10.30 to Home Shopping's Annual Report on Form 10-K for the fiscal year ended December 31, 1994, is incorporated herein by reference.

10.11\* Home Shopping Network, Inc. 1996 Stock Option Plan for Employees, filed as Exhibit A to the Home Shopping Definitive Proxy Statement, dated March 28, 1996, is incorporated herein by reference.

10.12 Exchange Agreement, dated as of December 20, 1996, by and between the Registrant and Liberty HSN, Inc. filed as Exhibit 10.25 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.

10.13\* Equity and Bonus Compensation Agreement, dated as of August 24, 1995, between Barry Diller and the Registrant filed as Exhibit 10.26 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.

10.14\* Silver King Communications, Inc. 1995 Stock Incentive Plan filed as Appendix G to

USA's  
Definitive  
Proxy  
Statement,  
dated November  
20, 1996, is  
incorporated  
herein by  
reference.

10.15\* Silver  
King  
Communications,  
Inc. Directors'  
Stock Option  
Plan filed as  
Appendix H to  
USA's  
Definitive  
Proxy  
Statement,  
dated November  
20, 1996, is  
incorporated  
herein by  
reference.

10.16  
Shareholders  
Agreement,  
dated December  
12, 1996,  
relating to  
Jupiter Shop  
Channel Co.  
Ltd. among  
Jupiter  
Programming Co.  
Ltd., Home  
Shopping  
Network, Inc.  
and Jupiter  
Shop Channel  
Co. Ltd. filed  
as Exhibit

10.35 to USA's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
December 31,  
1996, is  
incorporated  
herein by  
reference.

10.17 Services  
and Trademark  
License  
Agreement,  
dated as of  
December 12,  
1996, between  
Home Shopping  
Network, Inc.  
and Jupiter  
Shop Channel  
Co. Ltd., filed  
as Exhibit

10.36 to USA's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
December 31,  
1996, is  
incorporated  
herein by  
reference.

-----  
-----  
10.18  
Purchase and  
Sale  
Agreement  
among Home  
Shopping  
Network GmbH,  
Home Shopping  
Network,  
Inc., Quelle  
Schickedanz  
AG & Co., Mr.  
Thomas Kirch  
and Dr. Georg  
Kofler, dated  
as of January  
16, 1997,  
filed as  
Exhibit 10.37  
to USA's  
Annual Report  
on Form 10-K  
for the  
fiscal year  
ended  
December 31,  
1996, is  
incorporated  
herein by  
reference.

10.19 Joint  
Venture  
Agreement  
between  
Quelle  
Schickedanz  
AG & Co.,  
Home Shopping  
Network,  
Inc., Home  
Shopping  
Network GmbH,  
Mr. Thomas  
Kirch and Dr.  
Georg Kofler,  
filed as  
Exhibit 5.3  
to the  
Purchase and  
Sale  
Agreement,  
filed as  
Exhibit 10.38  
to USA's  
Annual Report  
on Form 10-K  
for the  
fiscal year  
ended  
December 31,  
1996, is  
incorporated  
herein by  
reference.

10.20 License  
Agreement,  
dated as of  
January 1,  
1996, between  
Ronald A.  
Katz  
Technology  
Licensing,  
L.P. and Home  
Shopping  
Network,  
Inc., filed  
as Exhibit  
10.39 to  
USA's Annual  
Report on  
Form 10-K for  
the fiscal  
year ended



December 31, 1996, is incorporated herein by reference.

10.21

Shareholder Agreement, dated as of April 26, 1996, by and among Channel 66 of Vallejo, California, Inc., Whitehead Media of California, Inc. and Silver King Capital Corporation, Inc., filed as Exhibit 10.40 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.

10.22

Loan Agreement, dated as of April 26, 1996, by and between SKC Investments, Inc. and Channel 66 of Vallejo, California, Inc., filed as Exhibit 10.41 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is incorporated herein by reference.

10.23

Joint Venture and License Agreement, dated as of June 12, 1992, between Savoy Pictures Entertainment, Inc. and Home Box Office, Inc.

(confidential treatment for portions thereof granted), filed as Exhibit 10(a) to Savoy's S-

1

Registration Statement No. 33-57956, is incorporated

herein by  
reference.

10.24 License  
Agreement,  
dated as of  
June 12,  
1992, among  
Savoy  
Pictures  
Entertainment,  
Inc. and Home  
Box Office,  
Inc.

(confidential  
treatment of  
portions  
thereof  
granted),  
filed as  
Exhibit 10(b)  
to Savoy's S-  
1  
Registration  
Statement No.  
33-57956, is  
incorporated  
herein by  
reference.

10.25 Warrant  
Agreement,  
dated as of  
March 2,  
1992, between  
Savoy  
Pictures  
Entertainment,  
Inc. and  
Allen &  
Company  
Incorporated,  
filed as

Exhibit 10(f)  
to Savoy's S-  
1  
Registration  
Statement No.  
33-57956, is  
incorporated  
herein by  
reference.

10.26 Warrant  
Agreement,  
dated as of  
March 2,  
1992, between  
Savoy

Pictures  
Entertainment,  
Inc. and GKH  
Partners,  
L.P., filed  
as Exhibit  
10(g) to  
Savoy's S-1  
Registration  
Statement No.  
33-57956, is  
incorporated  
herein by  
reference.

10.27 Warrant  
Agreement,  
dated as of  
April 20,  
1994, between  
Savoy and GKH  
Partners,  
L.P., filed  
as Exhibit  
10.2 to  
Savoy's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended March

31, 1994, is incorporated herein by reference.

EXHIBIT PAGE  
NUMBER  
DESCRIPTION  
NUMBER - ----  
-----  
-----  
-----

10.28  
\$1,600,000,000  
Credit  
Agreement,  
dated  
February 12,  
1998, among  
USA, USANi  
LLC, as  
Borrower,  
Various  
Lenders, The  
Chase  
Manhattan  
Bank as  
Administrative  
Agent,  
Syndication  
Agent and  
Collateral  
Agent, and  
Bank of  
America  
National  
Trust &  
Savings  
Association  
and The Bank  
of New York  
as Co-  
Documentation  
Agents, filed  
as Exhibit  
10.50 to  
USA's Annual  
Report on  
Form 10- K  
for the  
fiscal year  
ended  
December 31,  
1997, is  
incorporated  
herein by  
reference.  
10.29 First  
Amendment and  
Consent,  
dated as of  
June 24,  
1998, to the  
Credit  
Agreement,  
dated  
February 12,  
1998, among  
USA, USANi  
LLC, as  
Borrower,  
Various  
Lenders, The  
Chase  
Manhattan  
Bank, as  
Administrative  
Agent,  
Syndication  
Agent and  
Collateral  
Agent, and

Bank of  
America  
National  
Trust &  
Savings  
Association  
and The Bank  
of New York,  
as Co-  
Documentation  
Agents, filed  
as Exhibit  
10.39 to the  
S-4, is  
incorporated  
herein by  
reference.  
10.30 Second  
Amendment,  
dated as of  
October 9,  
1998, to the  
Credit  
Agreement,  
dated  
February 12,  
1998, among  
USA, USANi  
LLC, as  
Borrower,  
Various  
Lenders, The  
Chase  
Manhattan  
Bank, as  
Administrative  
Agent,  
Syndication  
Agent and  
Collateral  
Agent, and  
Bank of  
America  
National  
Trust &  
Savings  
Association  
and The Bank  
of New York,  
as Co-  
Documentation  
Agents, filed  
as Exhibit  
10.40 to the  
USA S-4, is  
incorporated  
herein by  
reference.  
10.31 Third  
Amendment,  
dated as of  
April 29,  
1999, to the  
Credit  
Agreement,  
dated  
February 12,  
1998, among  
USA, USANi  
LLC, as  
Borrower,  
Various  
Lenders, The  
Chase  
Manhattan  
Bank, as  
Administrative  
Agent,  
Syndication  
Agent and  
Collateral  
Agent, and  
Bank of  
America  
National  
Trust &

Savings Association and The Bank of New York, as Co-Documentation Agents, filed as Exhibit 10.39 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, is incorporated herein by reference.

10.32 Fourth Amendment, dated as of January 31, 2000, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents, filed as Exhibit 10.40 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, is incorporated herein by reference.

10.33 Fifth Amendment, dated as of January 31, 2001, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent,

Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents, filed as Exhibit 10.41 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is incorporated herein by reference. 10.34+ Sixth Amendment, dated as of December 7, 2001, to the Credit Agreement, dated February 12, 1998, among USA, USANi LLC, as Borrower, Various Lenders, The Chase Manhattan Bank, as Administrative Agent, Syndication Agent and Collateral Agent, and Bank of America National Trust & Savings Association and The Bank of New York, as Co-Documentation Agents. 253

EXHIBIT PAGE	NUMBER	DESCRIPTION
NUMBER - ----	-----	-----
10.35		Form of Governance Agreement among HSN, Inc., Universal Studios, Inc., Liberty Media Corporation and Barry Diller, dated

as of October 19, 1997, filed as Appendix B to USA's Definitive Proxy Statement, dated January 12, 1998, is incorporated herein by reference.

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

10.37 Form of Spinoff Agreement between Liberty Media Corporation and Universal Studios, Inc. dated as of October 19, 1997, filed as Appendix D to USA's Definitive Proxy Statement, dated January 12, 1998, is incorporated herein by reference.

10.38 Form of Amended and Restated Governance Agreement, among USA, Vivendi Universal, S.A., Universal Studios, Inc., Liberty Media Corporation and Barry Diller, dated as of December 16, 2001, filed as Appendix C to USA's Definitive Proxy Statement, dated March 25, 2002, is

incorporated herein by reference.

10.39 Form of Amended and Restated Stockholders Agreement among Universal Studios, Inc., Liberty Media Corporation, Barry Diller and Vivendi Universal, S.A., dated as of December 16, 2001, filed as Appendix D to USA's Definitive Proxy Statement, dated March 25, 2002, is incorporated herein by reference.

10.40\* HSN, Inc. 1997 Stock and Annual Incentive Plan, filed as Exhibit F to USA's Definitive Proxy Statement, dated January 12, 1998, is incorporated herein by reference.

10.41\* Employment Agreement between Michael Sileck and USA, dated October 12, 1999, filed as Exhibit 10.47 to USA's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, is incorporated herein by reference.

10.42\* Employment Agreement between Dara Khosrowshahi and USA, dated September 21, 2000, filed as Exhibit 10.1 to USA's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, is



incorporated  
herein by  
reference.

10.43+\*

Employment  
Agreement  
between  
Julius  
Genachowski  
and USA,  
dated August  
9, 2000. 266

10.44

Exchange  
Agreement,  
dated as of  
October 19,  
1997, by and  
among HSN,  
Inc. (renamed  
USA Networks,  
Inc.),  
Universal  
Studios, Inc.  
(and certain  
of its  
subsidiaries)  
and Liberty  
Media  
Corporation  
(and certain  
of its  
subsidiaries),  
filed as

Exhibit 10.60  
to USA's

Annual Report  
on Form 10-K  
for the  
fiscal year  
ended

December 31,  
1997, is  
incorporated  
herein by  
reference.

10.45\* USA  
Networks,  
Inc. 2000  
Stock and  
Annual

Incentive  
Plan, filed  
as Exhibit  
10.1 to USA's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended June  
30, 2000, is  
incorporated  
herein by  
reference.

10.46\* USA  
Networks,

Inc. Deferred  
Compensation  
Plan For Non-  
Employee  
Directors,  
filed as  
Exhibit 10.2  
to USA's  
Quarterly  
Report on

Form 10-Q for  
the quarter  
ended June  
30, 2000, is  
incorporated  
herein by  
reference.

EXHIBIT  
PAGE NUMBER  
DESCRIPTION  
NUMBER - --  
-----  
-----  
-----

21.1+  
Subsidiaries  
of USA 275  
23.1+  
Consent of  
Ernst &  
Young LLP  
279

-----

\* Reflects management contracts and compensatory plans.

+ Filed herewith.

(b) Reports on Form 8-K filed during the quarter ended December 31, 2001:

On October 2, 2001, USA furnished a report on Form 8-K reporting under Item 9, Regulation FD Disclosure, attaching investor presentation materials.

On October 24, 2001, USA furnished a report on Form 8-K reporting under Item 9, Regulation FD Disclosure, attaching a press release announcing its results for the quarter ended September 30, 2001 and forward-looking financial information.

On October 30, 2001, USA furnished a report on Form 8-K reporting under Item 9, Regulation FD Disclosure, providing supplemental information.

On October 31, 2001, USA furnished a report on Form 8-K reporting under Item 9, Regulation FD Disclosure, attaching investor presentation materials.

On November 9, 2001, USA furnished a report on Form 8-K reporting under Item 9, Regulation FD Disclosure, attaching investor presentation materials.

On November 9, 2001, 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, 2001.

On December 5, 2001, USA furnished a report on Form 8-K reporting under Item 9, Regulation FD Disclosure, attaching investor presentation materials.

On December 17, 2001, USA filed a report on Form 8-K reporting under Item 5, Other Events and Regulation FD Disclosure, attaching a press release announcing an agreement for USA to contribute its Entertainment Group to a joint venture with Vivendi Universal, supplemental financial information and presentation materials.

On December 18, 2001, USA filed a report on Form 8-K reporting under Item 5, Other Events and Regulation FD Disclosure, attaching the Transaction Agreement dated December 16, 2001, among Vivendi Universal, S.A., Universal Studios, Inc., USA Networks, Inc., USANi LLC and Liberty Media Corporation along with the other principal agreements contemplated thereby.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 1, 2002

USA NETWORKS, INC.

By: /s/ BARRY DILLER

-----

Barry Diller  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the

SIGNATURE  
TITLE -----

-----  
/s/ BARRY  
DILLER ----  
-----  
-----

-----  
Chairman of  
the Board,  
Chief  
Executive  
Officer  
Barry  
Diller and  
Director  
/s/ VICTOR  
A. KAUFMAN  
-----  
-----

-----  
Director  
and Vice  
Chairman  
Victor A.  
Kaufman /s/  
WILLIAM J.  
SEVERANCE -  
-----  
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-----  
Vice  
President  
and  
Controller  
(Chief  
William J.  
Severance  
Accounting  
Officer)  
/s/ DARA  
KHOSROWSHAHI  
-----  
-----

-----  
Executive  
Vice  
President  
and Chief  
Financial  
Officer  
Dara  
Khosrowshahi  
Officer  
(Principal  
Financial  
Officer)  
/s/ PAUL G.  
ALLEN -----  
-----  
-----

-----  
Director  
Paul G.  
Allen /s/  
ROBERT R.  
BENNETT ---  
-----  
-----

-----  
Director  
Robert R.  
Bennett

SIGNATURE

TITLE ----

-----  
- /s/  
EDGAR  
BRONFMAN,  
JR. -----  
-----  
-----

-----  
Director  
Edgar  
Bronfman,  
Jr. /s/  
ANNE M.  
BUSQUET --  
-----  
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-----  
- Director  
Anne M.  
Busquet  
/s/  
PHILIPPE  
GERMOND --  
-----  
-----  
-----

-----  
- Director  
Philippe  
Germond  
/s/ DONALD  
R. KEOUGH  
-----  
-----  
-----

-----  
---  
Director  
Donald R.  
Keough /s/  
MARIE-  
JOSEE  
KRAVIS ---  
-----  
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-----

-----  
Director  
Marie-  
Josee  
Kravis /s/  
PIERRE  
LESCURE --  
-----  
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- Director  
Pierre  
Lescure  
/s/ JOHN  
C. MALONE  
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Director  
John C.  
Malone /s/  
JEAN-MARIE  
MESSIER --  
-----  
-----  
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- Director  
Jean-Marie  
Messier  
/s/  
WILLIAM D.  
SAVOY ----  
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-----  
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Director  
William D.  
Savoy /s/  
H. NORMAN  
SCHWARZKOPF  
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-----  
-----  
Director  
H. Norman  
Schwarzkopf  
/s/ DIANE  
VON  
FURSTENBERG  
-----  
-----  
-----

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-----  
-----  
Director  
Diane Von  
Furstenberg

USA NETWORKS, INC. AND SUBSIDIARIES  
VALUATION AND QUALIFYING ACCOUNTS

BALANCE AT  
BALANCE  
BEGINNING  
CHARGES TO  
CHARGES TO  
DEDUCTIONS-  
AT END OF  
PERIOD  
EARNINGS  
OTHER  
ACCOUNTS(2)  
DESCRIBE(1)  
OF PERIOD  
-----  
-----  
-----  
-----  
-----

(IN  
THOUSANDS)  
Allowance  
for  
doubtful  
accounts:  
Year ended  
December  
31,  
2001...  
\$61,141  
\$66,054 \$  
640  
\$(70,379)  
\$57,456  
Year ended  
December  
31,  
2000...  
\$41,511  
\$28,525  
\$2,957  
\$(11,852)  
\$61,141  
Year ended  
December  
31,  
1999...  
\$20,581  
\$23,208  
\$5,813 \$  
(8,091)  
\$41,511

- 
- (1) Write-off fully reserved accounts receivable.
  - (2) Amounts relate to the acquisition of October Films as part of the October Films/PFE Transaction in 1999 and acquisition of Precision Corporation and merger with Styleclick.com in 2000.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
HOME SHOPPING NETWORK, INC.

We have audited the accompanying consolidated balance sheets of Home Shopping Network, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Home Shopping Network, Inc. and subsidiaries at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, 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  
January 29, 2002

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31,	-----	-----	-----	-----
-----	2001	2000	1999	-----
				-----
				Product
sales.....	\$1,935,542	\$1,799,932	\$1,370,790	Service
revenue.....	1,687,376	1,554,860	1,315,689	-----
				Net
revenues.....	3,622,918	3,354,792	2,686,479	Operating costs and
				expenses: Cost of sales-product
				sales..... 1,287,630
				1,178,369 900,896 Cost of sales-service
revenue.....	16,823	6,360	4,446	-----
				Program
costs.....	726,549	684,992	630,956	Selling and
marketing.....	421,259			
				383,722 277,257 General and
administrative.....	336,140			
				284,800 231,003 Other operating
costs.....	132,801			
129,458 89,793 Amortization of cable distribution				
fees.....	43,975	36,322	26,680	
				Amortization of non-cash
compensation.....	9,799	9,704	6,314	
				Depreciation and
amortization.....	236,819			
376,791 175,539	-----	-----	-----	-----

Total operating costs and	
expenses.....	3,211,795 3,090,518
2,342,884 -----	Operating
profit.....	
411,123 264,274 343,595	Other income (expense):
Interest	
income.....	
43,675 61,336 37,573	Interest
expense.....	
(73,183) (69,659) (73,106)	Gain on sale of
securities.....	-- -- 89,721
Gain on sale of subsidiary	
stock.....	-- 104,625 -- Other,
net.....	
(40,395) (45,859) 2,103 -----	
---- (69,903) 50,443 56,291	Earnings before income
taxes, minority interest and cumulative effect of	
accounting change.....	341,220 314,717
399,886	Income tax
expense.....	
(87,738) (89,424) (73,318)	Minority
interest.....	
(188,925) (160,267) (241,369) -----	
-----	Earnings before cumulative effect of
accounting change... 64,557 65,026 85,199	Cumulative
effect of accounting change.....	1,901
-- --	NET
EARNINGS.....	
\$ 66,458 \$ 65,026 \$ 85,199 -----	
-----	

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

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, -----	2001	2000	-----
-----	(IN THOUSANDS)	ASSETS	CURRENT ASSETS
cash equivalents.....	\$	779,592	\$ 71,816
Accounts and notes receivable, net of			allowance of \$30,586 and \$50,646,
respectively.....		533,869	
519,365	Inventories,		
net.....		404,155	
396,523	Investments held for		
sale.....	-- 750	Deferred	
income taxes.....		11,084	
17,448	Other current assets,		
net.....	26,120	18,024	-----
-----	Total current		
assets.....		1,754,820	
1,023,926	PROPERTY, PLANT AND EQUIPMENT		Computer and
broadcast equipment.....		132,712	
143,559	Buildings and leasehold		
improvements.....	79,043	71,979	
Furniture and other			
equipment.....	96,941	76,623	
Land.....			
10,386	10,281	Projects in	
progress.....		40,032	
32,747	-----	359,114	335,189
Less			accumulated depreciation and amortization.....
(120,468) (83,549)	-----	238,646	251,640
OTHER ASSETS	Intangible assets,		
net.....		4,888,545	
5,023,735	Cable distribution fees,		
net.....		158,880	159,473
Long-			term investments.....
39,485	29,187	Notes and accounts receivable, net (\$99,819	
and \$22,575, respectively, from related			parties).....
130,368	33,571	Inventories,	
net.....		484,679	
430,215	Advances to USA and		
subsidiaries.....	70,477	547,292	
Deferred charges and other,			
net.....		58,475	44,011
-----	\$7,824,375	\$7,543,050	-----
LIABILITIES AND STOCKHOLDERS' EQUITY	CURRENT LIABILITIES		
Current maturities of long-term			
obligations.....	\$ 32,911	\$ 20,053	Accounts
payable, trade.....		233,063	

201,484 Obligations for program rights and film costs.....	272,601	283,812	Cable distribution fees.....	32,795	33,598
			Deferred		
revenue.....			41,335 Other accrued		58,949
liabilities.....			351,331 -----		416,212
			----- Total current		
liabilities.....			931,613 LONG-TERM OBLIGATIONS (net of current maturities).....	499,513	504,063
			PROGRAM RIGHTS AND FILM COSTS, net of current.....		
			285,378	295,210	OTHER LONG-TERM
LIABILITIES.....					DEFERRED INCOME
TAXES.....				69,397	25,821
					MINORITY
INTEREST.....					
				4,563,804	4,420,252
CONTINGENCIES.....					
					STOCKHOLDERS' EQUITY Common
Stock.....					
				1,221,408	1,221,408
capital.....					Additional paid-in
					70,312
					Retained
earnings.....					33,398
				(2,320)	Accumulated other comprehensive
income.....				(5,613)	(5,234)
					----- Total stockholder's
equity.....					1,319,505
					1,284,166
					-----
					\$7,824,375
					\$7,543,050
					-----

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

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

ACCUMULATED ADDITIONAL RETAINED OTHER COMMON PAID-IN EARNINGS UNEARNED COMPREHENSIVE TOTAL STOCK CAPITAL (DEFICIT) COMPENSATION INCOME -----					
-----					
---					(IN
THOUSANDS) BALANCE AT DECEMBER					
31, 1998.....	\$1,320,172				
	\$1,221,408	\$70,755	\$ 18,379		
	\$(723)	\$ 10,353	Comprehensive		
Income: Net earnings for the					
year ended December 31,					
1999.....	85,199	--	--		
	85,199	--	--		Decrease in
					unrealized gains in available
					for sale
securities.....					
(10,353)	--	--	--	(10,353)	
----- Comprehensive					
income.....	74,846	-----			
					Mandatory tax
					distribution to LLC
partners.....					
(52,755)	--	--	(52,755)	--	
					Amortization of unearned
					compensation related to stock
					options and equity
					participation
plans.....	280	--	(443)		
--	723	-----			
-----					
----- BALANCE AT DECEMBER 31,					
1999.....	1,342,543				
1,221,408	70,312	50,823	--	--	
					Comprehensive Income: Net
					earnings for the year ended
					December 31, 2000.....
	65,026	--	--	65,026	--
					Decrease in unrealized loss in
					available for sale



securities.....			
(5,647) -- -- --	(5,647)		
Foreign currency			
translation... 413 -- -- --			
413 ----- Comprehensive			
income..... 59,792 -- --			
-- -- -- Mandatory			
tax distribution to LLC			
partners.....			
(118,169) -- -- (118,169) --			
-----			
BALANCE AT DECEMBER 31,			
2000..... 1,284,166			
1,221,408 70,312 (2,320) --			
(5,234) Comprehensive Income:			
Net earnings for the year			
ended December 31,			
2001..... 66,458 -- --			
66,458 -- -- Decrease in			
unrealized loss in available			
for sale			
securities.....			
5,647 -- -- -- 5,647			
Foreign currency			
translation... (6,026) -- --			
-- -- (6,026) -----			
Comprehensive			
income..... 66,079 -- --			
-- -- -- Mandatory			
tax distribution to LLC			
partners.....			
(30,740) -- -- (30,740) --			
-----			
BALANCE AT DECEMBER 31,			
2001..... \$1,319,505			
\$1,221,408 \$70,312 \$ 33,398 \$			
-- \$ (5,613) -----			
-----			

Accumulated other comprehensive income is comprised of unrealized (losses) gains on available for sale securities of \$0 and \$(5,647) for December 31, 2001 and 2000, respectively and foreign currency translation adjustments of \$(5,613) and \$413 for December 31, 2001 and 2000 respectively. There were no foreign currency translation for December 31, 1999.

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

HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, -----				
- 2001 2000 1999 ----- (IN				
THOUSANDS) CASH FLOWS FROM OPERATING ACTIVITIES: Net				
earnings.....				
\$ 66,458 \$ 65,026 \$ 85,199 ADJUSTMENTS TO RECONCILE NET				
EARNINGS (LOSS) TO NET CASH PROVIDED BY OPERATING				
ACTIVITIES: Depreciation and				
amortization..... 236,819 376,791				
175,539 Amortization of cable distribution				
fees..... 43,975 36,322 26,680 Amortization				
of program rights and film costs..... 658,328				
597,659 532,900 Gain on sale of subsidiary				
stock..... -- (104,625) --				
Cumulative effect of accounting				
change..... (1,901) -- -- Non-cash				
compensation..... 9,799				
9,704 6,314 Amortization of deferred financing				
costs..... -- 2,457 5,035 Deferred income				
taxes..... -- 30,186				
13,298 Equity in (earnings) losses of unconsolidated				
affiliates.....				
38,155 46,025 (1,866) Minority				
interest..... 188,925				
160,267 241,369 CHANGES IN CURRENT ASSETS AND				
LIABILITIES: Accounts				
receivable.....				
(40,545) (105,835) (33,879)				
Inventories.....				

30,210 (44,687) (16,805) Accounts payable.....	25,118
34,425 (11,233) Accrued liabilities and deferred revenue.....	76,135 73,007 28,738
Payment for program rights and film costs.....	
(764,625) (739,066) (555,383) Increase in cable distribution fees.....	(47,393)
(64,876) (42,887) Other, net.....	
(17,319) (12,541) (25,321) -----	
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	502,139 360,239 427,698
CASH FLOWS FROM INVESTING ACTIVITIES: Acquisitions, net of cash acquired.....	(35,845) (110,780)
(7,500) Capital expenditures.....	
(68,496) (94,826) (70,681) Increase in long-term investments and notes receivable....	(110,871) (40,220)
(54,478) Proceeds from sale of securities.....	-- 2,194 107,231
Payment of merger and financing costs.....	-- -- --
Other, net.....	
21,627 (2,168) 8,654 -----	NET CASH USED IN INVESTING ACTIVITIES.....
(193,585) (245,800) (16,774) CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings.....	
22,494 64,611 -- Payment of mandatory tax distribution to LLC partners.....	(30,740) (118,169) (52,755)
Principal payments on long-term obligations.....	(14,842)
(60,981) (253,224) Repurchase of LLC shares.....	-- (129,907)
(8,934) Proceeds from issuance of LLC shares.....	-- 210,455 410,545
Advances from (to) USA and subsidiaries.....	430,242
(246,775) (493,985)	
Other.....	
(5,821) (10,531) -- -----	NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES.....
401,333 (291,297) (398,353) Effect of exchange rate changes on cash and cash equivalents.....	
(2,111) 1,200 -- -----	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....
707,776 (175,658) 12,571 Cash and cash equivalents at beginning of period.....	71,816 247,474 234,903
-----	CASH AND CASH EQUIVALENTS AT END OF PERIOD.....
\$ 779,592 \$ 71,816 \$ 247,474 -----	

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

HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION

GENERAL

Home Shopping Network, Inc. (the "Company" or "Home Shopping"), is a holding company, whose subsidiary USANi LLC is engaged in diversified media and electronic commerce businesses. In December 1996, the Company consummated a merger with USA Networks, Inc. ("USA"), formerly known as HSN, Inc., and became a subsidiary of USA (the "Home Shopping Merger").

On February 12, 1998, the Company acquired USA Cable, a New York general partnership, consisting of cable television networks, USA Network and Sci Fi Channel ("USA Cable"), as well as the domestic television production and distribution businesses of Universal Studios ("Studios USA") from Universal Studios, Inc. ("Universal"), an entity controlled by The Seagram Company Ltd. ("Seagram") (the "Universal Transaction"). In connection with the Universal Transaction, the Company formed a new subsidiary, USANi LLC, and contributed the operating assets of the Home Shopping Network services ("HSN") to USANi LLC. Furthermore, USA contributed USA Cable and Studios USA to USANi LLC on February 12, 1998.

The Company is organized into two groups, the Interactive Group and the Entertainment Group. The Interactive Group consists of Home Shopping Network (including HSN International and HSN.com; Electronic Commerce Solutions; and Styleclick (OTC: IBUY). The Entertainment Group consists of USA Cable, including

USA Network and Sci Fi Channel and Emerging networks TR10, Newsworld International, and Crime; and Studios USA, which produces and distributes television programming.

On December 17, 2001, USA and Vivendi Universal, S.A. ("Vivendi") announced a transaction (the "Vivendi Transaction") in which USA's Entertainment Group, consisting of USA Cable, Studios USA, and USA Films, would be contributed to Vivendi Universal Entertainment, a new joint venture controlled by Vivendi. See below for further discussion under "Subsequent Events".

#### SUBSEQUENT EVENTS (UNAUDITED)

##### CONTRIBUTION OF THE USA ENTERTAINMENT GROUP TO VUE

On December 17, 2001, USA announced it had entered into an agreement with Vivendi pursuant to which USA would contribute USA's Entertainment Group to a limited liability entity (Vivendi Universal Entertainment, "VUE") to be controlled by Vivendi, to which Vivendi would contribute the film, television and theme park businesses of Universal Studios, Inc. ("Universal"). Upon consummation of the Vivendi transaction, the joint venture will be controlled by Vivendi and its subsidiaries, with the common interests owned 93.06% by Vivendi, 5.44% by USA and 1.5% by Mr. Diller, Chairman and CEO of USA.

In connection with the Vivendi Transaction, USA and its subsidiaries will receive the following at the closing of the transactions: (i) approximately \$1.62 billion in cash, debt-financed by VUE, subject to tax-deferred treatment for a 15-year period, (ii) a \$750 million face value Class A preferred interest in VUE, with a 5% annual paid-in-kind dividend and a 20-year term, to be settled in cash at its then face value at maturity; (iii) a \$1.75 billion face value Class B preferred interest in VUE, with a 1.4% annual paid-in-kind dividend, a 3.6% annual cash dividend, callable and puttable after 20 years, to be settled by Universal at its then face value with a maximum of approximately 56.6 million USA common shares, provided that Universal may substitute cash in lieu of shares of USA common stock (but not USA Class B common stock), at its election; (iv) a 5.44% common interest in VUE, generally callable by

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#### HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

##### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

###### NOTE 1--ORGANIZATION (CONTINUED)

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 currently exchangeable into USA common shares including USANI LLC interests obtained from Liberty in connection with a related transaction (see immediately below).

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

In addition, USA will issue to Universal ten-year warrants to acquire shares of USA common stock as follows: 24,187,094 shares at \$27.50 per share; 24,187,094 shares at \$32.50 per share; and 12,093,547 shares at \$37.50 per share. Barry Diller, USA's chairman and chief executive officer, will receive a common interest in VUE with a 1.5% profit sharing percentage, with a minimum value of \$275.0 million, in return for his agreeing to specified non-competition provisions and agreeing to serve as chairman and chief executive officer of VUE. USA and Mr. Diller have agreed that they will not compete with Vivendi's television and filmed entertainment businesses (including VUE) for a minimum of 18 months.

In February 2002, Mr. Diller assigned to three executive officers of USA, the right to receive economic interests in a portion of the common interests in VUE that Mr. Diller will receive upon closing of the transactions.

The Vivendi Transaction is subject to USA shareholder vote, including the approval of 66 2/3% of the outstanding USA common stock and USA preferred stock, voting together as a single class, and excluding shares held by Vivendi, Liberty, Mr. Diller and their respective affiliates, as well as other customary regulatory approvals, and there can be no assurance that the transaction will be completed.

###### 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 HSN--Germany based upon a Pooling Agreement allowing for the Company to elect a majority of the Board of Directors and to control the

operations of HSN--Germany. Significant intercompany transactions and accounts have been eliminated.

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

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
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.

ELECTRONIC RETAILING

Revenues from Home Shopping primarily consist of merchandise sales and are reduced by incentive discounts and sales returns to arrive at net sales. Revenues for domestic sales are recorded for credit card sales upon transaction authorization, which occurs only if the goods are in stock, and for check sales upon receipt of customer payment, which does not vary significantly from the time goods are shipped. Revenues for international sales are recorded upon shipment. Home Shopping's sales policy allows merchandise to be returned at the customer's discretion within 30 days of the date of delivery. Allowances for returned merchandise and other adjustments are provided based upon past experience.

OTHER

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

FILM COSTS

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

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 year ended December 31, 2001 was \$42.2 million. Barter revenues for the year ended December 31, 2000 and 1999 are not material to the Company's statement of operations.

#### 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 \$40.4 million and \$37.9 million at December 31, 2001 and 2000, respectively.

#### CASH AND CASH EQUIVALENTS

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

#### PROPERTY, PLANT AND EQUIPMENT

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

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### HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

DEPRECIATION/AMORTIZATION ASSET CATEGORY	PERIOD	
----- Computer and broadcast equipment.....	3 to 13 Years	
Buildings.....	30 to 40 Years Leasehold	
improvements.....	4 to 20 Years Furniture and other equipment.....	3 to 10 Years

Depreciation and amortization expense on property, plant and equipment was \$83.6 million, \$65.2 million and \$41.0 million for the years ended December 31, 2001, 2000 and 1999, respectively.

#### LONG-LIVED ASSETS INCLUDING INTANGIBLES

The Company's accounting policy regarding the assessment of the recoverability of the carrying value of long-lived assets, including goodwill and other intangibles and property, plant and equipment, is to review the carrying value of the assets if the facts and circumstances suggest that they

may be impaired. If this review indicates that the carrying value will not be recoverable, as determined based on the projected undiscounted future cash flows, the carrying value is reduced to its estimated fair value. See below under "New Accounting Pronouncements" for further information related to goodwill and other intangible assets. The Company amortizes goodwill and other intangible assets over their estimated useful lives, which range from 3 to 40 years for goodwill and 1 to 5 years for intangibles.

#### CABLE DISTRIBUTION FEES

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

#### ADVERTISING

Advertising costs are primarily expensed in the period incurred. Advertising expense for the years ended December 31, 2001, 2000 and 1999 were \$137.3 million, \$127.5 million and \$95.5 million, respectively.

#### STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation issued to employees in accordance with APB 25, "Accounting for Stock Issued to Employees." In cases where exercise prices are less than fair value as of the grant date, compensation is recognized over the vesting period. For stock-based compensation issued to non-employees, the Company accounts for the grants in accordance with FASB Statement No. 123, "Accounting for Stock Based Compensation."

#### MINORITY INTEREST

Minority interest represents the ownership interests of third parties in the net assets and results of operations of certain consolidated subsidiaries. Minority interest primarily represents the public's

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### HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ownership interest in Styleclick since July 27, 2000 and the public's ownership interest in HSN--Germany since its consolidation as of January 1, 2000. Upon completion of the Vivendi Transaction, Holdco and USA will own 100% of the member's interest in USANi LLC.

##### FOREIGN CURRENCY TRANSLATION

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

##### ISSUANCES OF SUBSIDIARY STOCK

The Company accounts for issuances of stock by a subsidiary via income statement recognition, recording income or losses as non-operating income/ (expense). During the year ended December 31, 2000, the Company recorded a gain of \$104.6 million related to the issuance of subsidiary stock. See Note 3 for further discussion.

##### ACCOUNTING ESTIMATES

Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with generally accepted accounting principles. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates.

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

##### NEW ACCOUNTING PRONOUNCEMENTS

##### GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, all calendar year companies will be required to adopt Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." The new rules eliminate amortization of goodwill and other intangible assets with indefinite lives and establish new measurement criterion for these assets. Although it has not completed its assessment, the Company does not anticipate a write-off upon adoption. The rules are expected to reduce USA's annual amortization by approximately \$145.4 million.

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

HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

SOP 00-2 was adopted as of January 1, 2001, and the Company recorded a one-time, non-cash benefit of \$1.9 million. The benefit is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

RECLASSIFICATIONS

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

NOTE 3--BUSINESS ACQUISITIONS

STYLECLICK TRANSACTION

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

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

(IN THOUSANDS)	-----	Value of portion
of Styleclick.com acquired in the merger...		
\$121,781 Additional cash and promotional		
investment by USA.....	50,000	Fair value
of outstanding "in the money options" and		warrants of
Styleclick.com.....		
	37,989	Transaction
costs.....		
	2,144	----- Total acquisition
costs.....		
	\$211,914	-----

The fair value of Styleclick.com was based on the fair value of \$15.78 per share times 7.7 million shares outstanding. Fair value of the shares was determined by taking an average of the opening and closing price of Styleclick.com common stock for the period just before and just after the terms of the transaction were agreed to by the Company and Styleclick.com and announced to the public. In

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 3--BUSINESS ACQUISITIONS (CONTINUED)

conjunction with the transaction, the Company recorded a pre-tax gain of \$104.6 million in accordance with Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock by a Subsidiary", based upon the 25% of ISN's net book value exchanged for 75% of Styleclick.com's fair value, determined based upon the fair value of Styleclick.com common stock received in the merger.

The Styleclick transaction has been accounted for under the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of purchase. The unallocated excess of acquisition costs over net assets acquired of \$170.2 million has been allocated to goodwill, which originally was being amortized over 3 years.

In March 2001, Styleclick announced a new company organization designed to advance its offering of scaleable commerce services. The announcement included Styleclick's acquisition of the MVP.com technology platform. Also in March 2001, the Styleclick Board elected two executives of ECS to top management positions at Styleclick, and certain senior executives of Styleclick left the Company. As of December 31, 2000, as a result of the historical and anticipated operating losses of Styleclick, and the continuing evaluation of the operations and technology, Styleclick determined the goodwill recorded in conjunction with the Styleclick Merger was impaired and recorded a write-down of \$145.6 million as goodwill amortization in fiscal 2000. Since the second quarter of 2001, Styleclick has focused on e-commerce services and technology while eliminating its online retail business. During this transition, Styleclick continued to incur significant net losses from operations that raise substantial doubt about Styleclick's ability to continue as a going concern. Styleclick is considering its options with respect to the situation.

## BUSINESS ACQUISITION PRO FORMA RESULTS

The following unaudited pro forma condensed consolidated financial information for the twelve months ended December 31, 2000 and 1999 is presented to show the results of the Company as if the Styleclick Transaction had occurred on January 1, 2000. The pro forma results reflect 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 January 1, 1999.

YEAR ENDED DECEMBER 31, -----		
- 2000 1999 -----		Net
revenues.....		
	\$3,356,681	\$2,692,653
income.....		
	61,413	73,021

## NOTE 4--INTANGIBLE ASSETS

Intangible assets represents goodwill which is amortized using the straight-line method over periods ranging from 3 to 40 years.

Goodwill primarily relates to various transactions, and represents the excess of purchase price over the fair value of assets acquired and is net of accumulated amortization of \$573.1 million and \$453.6 million at December 31, 2001 and 2000, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 5--LONG-TERM OBLIGATIONS

DECEMBER 31, ----- 2001 2000 ---  
 ----- (IN THOUSANDS) Unsecured Senior  
 Credit Facility ("New Facility"); with a  
 \$40,000,000 sub-limit for letters of credit,  
 entered into February 12, 1998, which matures  
 on December 31, 2002. At the Company's option,  
 the interest rate on borrowings is tied to the  
 London Interbank Offered Rate ("LIBOR") or the  
 Alternate Base Rate ("ABR"), plus an  
 applicable margin. Interest rate at December  
 31, 2000 was 2.9%..... \$ -- \$ --  
 \$500,000,000 6 3/4% Senior Notes (the "Senior  
 Notes") due November 15, 2005; interest  
 payable May 15 and November 15 commencing May  
 15, 1999. Interest rate at December 31, 2001



was 6.75%.....  
498,515 498,213 Other long-term obligations  
maturing through 2005..... 33,909 25,903  
----- Total long-term  
obligations.....  
532,424 524,116 Less current  
maturities.....  
(32,911) (20,053) ----- Long-term  
obligations, net of current  
maturities..... \$499,513 \$504,063 -----  
-----

On February 12, 1998, USA and USANi LLC, as borrower, entered into a credit agreement which provides for a \$1.6 billion credit facility. The credit facility was used to finance the Universal Transaction and to refinance USA's then-existing \$275.0 million revolving credit facility. The credit facility consists of (1) a \$600.0 million revolving credit facility with a \$40.0 million sub-limit for letters of credit, (2) a \$750.0 million Tranche A Term Loan and, (3) a \$250.0 million Tranche B Term Loan. The Tranche A Term Loan and the Tranche B Term Loan have been permanently repaid as of December 31, 1999, as described below.

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

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

YEARS ENDING DECEMBER 31, (IN THOUSANDS) - -----	
2002.....	\$ 32,911
2003.....	748
2004.....	50
2005.....	498,715
2006.....	--
Thereafter.....	-- \$532,424 -----

HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--INCOME TAXES

Federal income tax expense represents an allocation of income tax expense from USA, calculated as if Home Shopping was a separate filer for federal tax purposes.

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

YEARS ENDED DECEMBER 31, -----			
----- 2001 2000 1999 -----			
-- (IN THOUSANDS) Income tax			
expense at the federal statutory rate of			
35%.....	\$119,427	\$155,017	\$140,064
Amortization of			
goodwill and other			
intangibles.....	11,688	14,494	11,618
State income taxes,			
net of effect of federal tax			
benefit.....	9,450	9,158	10,128
Impact of minority			
interest..... (76,827)			
(98,606) (87,246) Other,			
net.....	24,000	9,361	(1,246)
-----	-----	-----	-----
Income tax			

expense..... \$  
 87,738 \$ 89,424 \$ 73,318 -----  
 -----

The components of income tax expense are as follows:

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	-----
----- (IN THOUSANDS) CURRENT INCOME TAX				-----
EXPENSE:				
Federal.....	\$55,971	\$45,750	\$47,265	
State.....	11,117	9,087	12,755	
Foreign.....	-- 4,401 --			Current
income tax expense:.....	\$67,088	\$59,238	\$60,020	DEFERRED INCOME TAX
EXPENSE:				
Federal.....	\$17,228	\$25,184	\$10,472	
State.....	3,422	5,002	2,826	-----
Deferred income tax				
expense:.....	\$20,650	\$30,186		
\$13,298				----- Total income
tax expense.....	\$87,738			
\$89,424	\$73,318			-----

The tax effects of cumulative temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000, are presented below.

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--INCOME TAXES (CONTINUED)

The valuation allowance represents items for which it is more likely than not that the tax benefit will not be realized.

DECEMBER 31, DECEMBER 31, 2001 2000 -----	-----	-----	-----
----- (IN THOUSANDS) CURRENT DEFERRED TAX ASSETS			
(LIABILITIES): Inventory			
costing.....	\$ 8,400		
\$ 10,888 Provision for accrued			
expenses.....	8,246	3,980	
Investment in			
affiliates.....	-- --		
Deferred			
Revenue.....	(55,093)	(43,385)	Bad
debts.....	3,505	2,573	Program rights
amortization.....	8,472	8,472	
Other.....	37,554	34,920	----- Total current deferred
tax assets.....	\$ 11,084	\$ 17,448	
Less valuation			
allowance.....	-- --		
----- Net current deferred tax			
assets.....	\$ 11,084	\$ 17,448	NON-
CURRENT DEFERRED TAX ASSETS (LIABILITIES): Broadcast and			
cable fee contracts.....	1,783	1,783	
Depreciation for tax in excess of financial			
statements....	(6,710)	(7,769)	Amortization of tax
deductible goodwill.....	(79,962)	(44,369)	
Amortization of FCC licenses and broadcast related			
intangibles.....	(15,879)	(15,879)	Program rights
amortization.....	1,804	1,804	
Investment in			
subsidiaries.....	10,369		
10,369			
Programming.....	22,370	36,343	Deferred
revenue.....	(5,062)		
(5,062) Net federal operating loss			
carryforward.....	21,334	--	
Other.....	15,705	10,775	----- Total non-current
deferred tax liabilities.....	\$(34,248)		

allowance.....	\$(12,005)	Less Valuation	
(13,816) -----			(35,149)
liabilities.....	\$(69,397)	Net non-current deferred tax	
- -----		TOTAL DEFERRED TAX	
LIABILITIES.....			\$(58,313)
	(8,373) -----		

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, as well as broadcast and production facilities, equipment and services used in connection with its operations under various operating leases and contracts, many of which contain escalation clauses.

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

YEARS ENDING DECEMBER 31, (IN THOUSANDS) - -----	
-----	
2002.....	\$ 42,608
2003.....	23,089
2004.....	20,088
2005.....	10,480
2006.....	7,029
Thereafter.....	41,384 ----- \$144,678 -----

Expenses charged to operations under these agreements were \$61.8 million, \$56.4 million and \$46.1 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Unrecorded commitments for program rights consist of programs for which the license period has not yet begun or the program is not yet available to air. As of December 31, 2001, the unrecorded commitments amounted to \$968.0 million. Annual commitments are \$153.8 million in 2002, \$173.5 million in 2003, \$189.1 million in 2004, \$155.0 million in 2005, \$112.4 million in 2006 and \$184.2 million in 2007 and thereafter.

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

NOTE 8--INVENTORIES

DECEMBER 31, 2001	DECEMBER 31, 2000	-----
-----	CURRENT	NONCURRENT
CURRENT	NONCURRENT	-----
-----	(IN THOUSANDS)	Film costs: Released, net
of amortization.....	\$ --	
\$210,325	\$ --	\$216,656 In process and
unreleased.....	-- 25,411 --	
34,713	Programming costs, net of	
amortization.....	209,798	248,943
178,846	Sales merchandise,	172,493
net.....	194,357 --	
224,030	-----	
Total.....		
\$404,155	\$484,679	\$396,523
	\$430,215	-----
-----		

The Company estimates that approximately 90% of unamortized film costs at December 31, 2001 will be amortized within the next three years.

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

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## HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 10--BENEFIT PLANS

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

## NOTE 11--STOCK OPTION PLANS

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

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

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

DECEMBER 31, -----	-----	2001	-----
2000	1999	-----	PRICE PRICE
PRICE	SHARES	RANGE	SHARES
RANGE	-----	SHARES	RANGE
-----	-----	(SHARES IN THOUSANDS)	-----
Outstanding at beginning of			
period.....	78,053	\$ 1-\$37	68,330 \$
1-\$37	68,916	\$ 2-37	Granted or issued in
connection with			
mergers.....			
5,676	\$19-\$28	13,445	\$17-\$28 8,093 \$16-28
Exercised.....			
(7,016)	\$ 3-\$28	(1,915)	\$ 3-\$17 (7,881) \$
1-13			
Cancelled.....			
(1,060)	\$ 5-\$28	(1,807)	\$ 6-\$37 (798) \$
6-18 ----- Outstanding at			
end of period..... 75,653 \$			
1-\$28	78,053	\$ 1-\$28	68,330 \$ 1-37 -----
-----			
Options			
exercisable..... 58,591			
\$ 1-\$28	52,082	\$ 1-\$37	44,697 \$ 1-37 ----
-----			

The weighted average exercise prices during the year ended December 31, 2001, were \$22.87, \$8.93 and \$20.62 for options granted, exercised and cancelled, respectively. The weighted average fair value of options granted during the year was \$9.69.

The weighted average exercise prices during the year ended December 31, 2000, were \$20.92, \$9.69 and \$20.13 for options granted, options exercised and options cancelled, respectively. The weighted average fair value of options granted during the year was \$8.10.

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## HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)



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.

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--STATEMENTS OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED  
DECEMBER 31, 2001:

For the twelve months ended December 31, 2001, the Company incurred non-cash compensation expense of \$9.8 million, including \$4.9 million related to an agreement with and executive.

In 2001 the Company realized pre-tax losses of \$30.7 million on equity losses in unconsolidated subsidiaries, resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2001 the Company realized pre-tax losses of \$7.9 million related to the write-off of equity investments to fair value. The write-off in equity investments was based upon management's estimate of the current value of the investments, considering the current business environment, financing opportunities of the investees, anticipated business plans and other factors. Note that the majority of investments were in Internet related companies.

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED  
DECEMBER 31, 2000:

As of January 1, 2000 the Company began to consolidate the accounts of HOT Germany, an electronic retailer operating principally in Germany, 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.

For the twelve months ended December 31, 2000, the Company incurred non-cash compensation expense of \$9.7 million, including \$3.8 million related to a consulting agreement with an executive.

In 2000 the Company realized pre-tax losses of \$7.9 million on equity losses in unconsolidated subsidiaries resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In d 2000 the Company also realized pre-tax losses of \$35.9 million related to the write-off of equity investments to fair value. The write-off in equity investments was based upon management's estimate of the current value of the investments, considering the current business environment, financing opportunities of the investees, anticipated business plans and other factors. Note that the majority of investments were in Internet related companies.

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED  
DECEMBER 31, 1999:

For the twelve months ended December 31, 1999, the Company incurred non-cash compensation expense of \$6.5 million.

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--STATEMENTS OF CASH FLOWS (CONTINUED)

In 1999, the Company acquired post-production equipment through a capital lease totaling \$2.5 million Supplemental disclosure of cash flow information:

YEARS ENDED DECEMBER 31, -----			
----- 2001 2000 1999 -----			
----- (IN THOUSANDS) Cash paid during the			
period for:			
Interest.....			
\$35,856	\$35,688	\$47,112	Income tax
payments.....	12,499		
5,680	3,935		Income tax
refund.....		1,053	
	1,250	--	

NOTE 13--RELATED PARTY TRANSACTIONS

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

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

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

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

Home Shopping has affiliation agreements with USA Broadcasting ("USAB"), a wholly owned subsidiary of USA which provides for the USAB's broadcast of Home Shopping's electronic retailing programming on a full-time basis. Expense related to these affiliation agreements with USAB for the years ended December 31, 2001, 2000 and 1999 was \$17.1 million, \$35.0 million and \$38.1 million, respectively.

Under the USANi LLC Operating Agreement, USANi LLC is obligated to make a distribution to each of the LLC members in an amount equal to each member's share of USANi LLC's taxable income at a specified tax rate. The estimated amount for 2001 is \$153.5 and is expected to be paid on February 28, 2002. In March 2000, the Company made a mandatory tax distribution payment to the partners in the amount of \$118.1 million related to the year ended December 31, 1999, of which \$50.1 was paid to USA. In March 1999, the Company paid \$52.8 million, of which \$24.0 million was paid to USA.

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#### HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 13--RELATED PARTY TRANSACTIONS (CONTINUED)

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

#### NOTE 14--TRANSACTIONS WITH USA AND SUBSIDIARIES

Advances to USA and subsidiaries generally represent net amounts transferred from the Company to USA and its subsidiaries to fund operations and other related items. Pursuant to the Investment Agreement, all excess cash held at USA and subsidiaries is transferred to the Company no less frequently than monthly and the Company may transfer funds to USA to satisfy obligations of USA and its subsidiaries. Under the Investment Agreement, transfers of cash are evidenced by a demand note and accrue interest at the Company's borrowing rate under the credit facility.

During the year ended December 31, 2001, net transfers from USA to USANi LLC totaled approximately \$547.0 million, principally due to the proceeds of \$589.6 from the 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., and net receipts of \$67.4 million and \$23.8 million from USA Films and PRC, respectively. The receipts were offset by \$77.8 million to fund two acquisitions by PRC and \$40.9 million to fund the operations of USA's television broadcast operations, as USA continued to air HSN programming on a majority of the stations until January 2002.

During the year ended December 31, 2000, net transfers from USANi LLC to USA totaled approximately \$350.4 million, including \$70.8 million related to contingent purchase price payments on the Hotel Reservations Network transaction, \$69.2 million to fund the operations of USA's television broadcast operations, \$50.7 million to fund the operations and acquisitions of Ticketmaster, \$26.9 million to fund the operations and acquisition of PRC and \$32.3 million to pay off outstanding debt of PRC at the date of acquisition, offset partially by net receipts of \$25.1 million from USA Films.

During the year ended December 31, 1999, net transfers from USANi LLC to USA totaled approximately \$429.1 million, including \$372.2 million related to the

Hotel Reservations Network Transaction and the October Films/PFE Transaction (including \$200 million advanced to Universal pursuant to an eight year, full recourse, interest-bearing note in connection with the acquisition of October Films, in which Universal owned a majority interest, and the domestic film distribution and development business of Universal previously operated by Polygram Filmed Entertainment, Inc.), \$50.9 million to fund the operations of USA's television broadcast operations, \$98.6 million to repay a portion of the outstanding borrowings assumed in the October Films/PFE Transaction and \$8.8 million to fund the operations of USA Films. Funds were also transferred to USA to purchase shares of treasury stock. These amounts were offset by \$79.4 million and \$40.0 million of funds transferred to USANi LLC from the Ticketing operations business and the Hotel reservations business, respectively. During the year ended December 31, 1998 net cash transfers totaling approximately \$118.2 million were made to repay USA's revolving credit facility, repay Ticketmaster's bank credit facility, and fund the operations of USA's broadcast operation, offset by proceeds from the sale of the assets of SF Broadcasting and USA's Baltimore television station. The interest incurred on the net transfers for the years ended December 31, 2000, 1999 and 1998 was approximately \$2.9 million, \$7.2 million and \$9.5 million, respectively.

The Company allocates certain overhead expenses to the USA parent company based upon the fair value of services performed. Expenses allocated for the periods ended December 31, 2001, 2000 and 1999 were \$8.6 million, \$11.6 million and \$8.6 million, respectively.

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15--QUARTERLY RESULTS (UNAUDITED)

	QUARTER ENDED DECEMBER 31, 2001	QUARTER ENDED DECEMBER 31, 2000	QUARTER ENDED SEPTEMBER 30, 2000	QUARTER ENDED JUNE 30, 2000
----- (IN THOUSANDS) Year				
Ended December 31, 2001 Net				
revenues.....	\$942,687	\$862,646	\$912,803	\$904,782
Operating				
profit.....	96,097	92,412	107,697	114,917
earnings(a)				
(b).....	(2,391)			
18,023 24,361 26,465 Year Ended December 31, 2000 Net				
revenues.....	\$970,939	\$776,881	\$799,806	\$807,166
Operating				
profit.....	(34,826)	81,347	99,769	117,984
earnings(a)				
(c).....	(13,546)			
34,197 22,585 21,790				

- (a) The Company recorded losses of \$7.5 million and \$0.4 million during the fourth and second quarters of 2001, respectively, related to the write-down of equity investments to fair value. The Company recorded losses of \$5.4 million and \$30.5 million during the fourth and third quarters of 2000, respectively, related to the write-down of equity investments to fair value.
- (b) During the first quarter of 2001, the Company adopted Statement of Position 00-2, "Accounting By Producers or Distributors of Films." The Company recorded income of \$1.9 million related to the cumulative effect of adoption.
- (c) The quarterly results include the operations of Styleclick.com since its acquisition on July 27, 2000, and PRC since its acquisition on April 5, 2000. During the third quarter of 2000, the Company recorded a pre-tax gain of \$104.6 million related to the Styleclick Transaction. During the fourth quarter of 2000, the Company recorded a pre-tax charge of \$145.6 million related to the impairment of Styleclick goodwill.

NOTE 16--INDUSTRY SEGMENTS

The Company operates principally in five industry segments: Cable and studios, HSN-US, ECS/ Styleclick, Emerging networks and HSN-International and other.

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



\$44.0 million, \$36.3 million and \$26.7 million in fiscal years 2001, 2000 and 1999, respectively (3) amortization of non-cash distribution and marketing expense and (4) disengagement expenses (described below) of \$4.1 million in 2001. Adjusted EBITDA is presented here as a tool and as a valuation methodology used by management in evaluating the business. Adjusted EBITDA does not purport to represent cash provided by operating activities. Adjusted EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Adjusted EBITDA may not be comparable to calculations of similarly titled measures presented by other companies.

HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16--INDUSTRY SEGMENTS (CONTINUED)

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

TWELVE MONTHS ENDED DECEMBER 31, -----			
	2001	2000	1999
-----			
Operating income.....	\$411,123	\$264,274	\$343,595
Depreciation and amortization.....	236,819		
Amortization of cable distribution fees.....	43,975	36,322	
Amortization of non cash compensation expense.....	9,799	9,704	6,314
Disengagement expenses.....	4,052	--	--
-----			
Adjusted EBITDA.....	\$705,768	\$687,091	\$552,128
-----			

YEARS ENDED DECEMBER 31, -----			
	2001	2000	1999
-----			
(IN THOUSANDS) REVENUES Cable and studios.....	\$1,633,130	\$1,525,124	\$1,304,683
HSN--U.S.(a).....	1,658,904	1,533,271	1,332,911
Electronic Commerce Solutions/Styleclick.....	34,229	30,350	31,886
Trio, NWI, Crime, other emerging media... 1,188			
HSN--International and other(b).....	272,569	245,715	8,917
Other.....	--	--	6,894
-----			
TOTAL.....	\$3,622,918	\$3,354,792	\$2,686,479
-----			

OPERATING PROFIT (LOSS) Cable and studios.....			
	\$486,667	\$435,116	\$320,878
HSN--U.S.(a)(c).....	86,825		
Electronic Commerce Solutions/Styleclick.....	(73,145)	(230,021)	(46,588)
Trio, NWI, Crime, other emerging media... (13,244)			
(2,989) HSN--International and other(b).....	(34,907)	4,641	
Corporate & other.....	(34,184)		
(37,370) (28,152) -----			
-----			

TOTAL.....			
	\$411,123	\$264,274	\$343,595
-----			
ADJUSTED EBITDA Cable and studios.....	\$613,587	\$547,684	\$434,084
HSN--U.S.(a).....	213,239		
Electronic Commerce Solutions/Styleclick.....	(58,364)	(50,163)	(43,421)
Trio, NWI, Crime, other emerging media... (7,120)			
(2,989) HSN--International and			

other(b).....	(25,306)	10,740	
	(4,505)	Corporate &	
other.....	(25,921)		
(25,512)	(20,025)	-----	
		-----	
TOTAL.....			
\$ 705,768	\$ 687,091	\$ 552,128	-----
			-----

HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16--INDUSTRY SEGMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, -----			
-----	2001	2000	1999
-----			(IN
	THOUSANDS) ASSETS Cable and		
	studios.....		
\$6,189,380	\$5,885,301	\$5,524,236	HSN--
U.S.....			
1,849,946	1,855,512	1,771,560	
	Electronic Commerce		
Solutions/Styleclick.....			
(42,751)	36,726	28,623	Trio, NWI,
Crime, other emerging media... 97,376			
100,943	200	HSN--International and	
other.....	212,549	133,654	
	37,840 Corporate &		
	other.....		
(482,125)	(469,086)	(130,815)	-----
			-----
TOTAL.....			
7,824,375	\$7,543,050	\$7,231,644	-----
			-----

DEPRECIATION AND AMORTIZATION OF			
INTANGIBLES AND CABLE DISTRIBUTION			
FEES Cable and			
			studios..... \$
122,008	\$ 112,568	\$ 113,034	HSN--
U.S.....			
122,115	106,059	83,796	Electronic
	Commerce		
Solutions/Styleclick.....			
14,589	179,858	3,167	Trio, NWI, Crime,
other emerging media... 8,666	6,124	--	
	HSN--International and		
other.....	9,601	6,099	12
	Corporate &		
	other..... 3,815		
2,405	2,210		-----
			-----
TOTAL.....			
\$ 280,794	\$ 413,113	\$ 202,219	-----
			-----

CAPITAL			
EXPENDITURES Cable and			
			studios..... \$
12,907	\$ 15,229	\$ 6,771	HSN--
U.S.....			
42,615	34,122	33,412	Electronic
	Commerce		
Solutions/Styleclick.....			
2,292	5,047	13,657	Trio, NWI, Crime,
other emerging media... 61	600	--	HSN--
	International and other.....		
	6,031	18,105	13,746
	Corporate &		
	other..... 4,590		
21,723	3,095		-----
			-----
TOTAL.....			
\$ 68,496	\$ 94,826	\$ 70,681	-----
			-----

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

(b) Includes impact of foreign exchange fluctuations, which reduced revenue by \$44.0 million and \$36.3 million in 2001 and 2000, respectively, if the

results are translated from Euros to U.S. dollars at a constant exchange rate, using 1999 as the base year.

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

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HOME SHOPPING NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17--FINANCIAL INSTRUMENTS

The additional disclosure below of the estimated fair value of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies when available. The carrying value of all current assets and current liabilities approximates fair value due to their short-term nature.

	DECEMBER 31, 2001	DECEMBER 31, 2000
	CARRYING FAIR	CARRYING
	AMOUNT VALUE	AMOUNT VALUE
	(IN THOUSANDS)	
Cash and cash equivalents.....	\$ 779,592	\$ 71,816
Long-term investments.....	39,485	29,187
obligations.....	(532,424)	(524,116)

NOTE 18--EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

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

	AS OF	AND FOR THE YEARS ENDED	DECEMBER 31,
	2001	2000	(IN THOUSANDS)
assets.....	\$ 17,597	\$ 6,943	Current
assets.....	157,274	42,784	Current
liabilities.....	46,085	37,531	Noncurrent
liabilities.....	194,249	23,668	Net
sales.....	8,215	6,242	Gross
profit.....	277	1,301	Net
loss.....	(51,453)	(20,254)	

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

NOTE 19--PROGRAM RIGHTS AND FILM COSTS

As of December 31, 2001, the liability for program rights, representing future payments to be made under program contract agreements amounted to \$510.1 million. Annual payments required are \$259.3 million in 2002, \$156.6 million in 2003, \$70.8 million in 2004, \$17.0 million in 2005, \$3.9 million in 2006 and \$2.5 million in 2007 and thereafter. Amounts representing interest are \$48.1 million and the present value of future payments is \$462.0 million.

As of December 31, 2001, the liability for film costs amounted to \$95.9 million. Annual payments are \$51.6 million in 2002, \$42.4 million in 2003 and \$1.9 million in 2004.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 20--GUARANTEE OF NOTES

USA issued \$500.0 million 6 3/4% Senior Notes due 2005 (the "Notes"). USANi LLC is a co-issuer and co-obligor of the Notes. The Notes are jointly, severally, fully and unconditionally guaranteed by certain subsidiaries of USA, including the Company and all of the subsidiaries of USANi LLC (other than subsidiaries that are, individually and in the aggregate, inconsequential to USANi LLC on a consolidated basis) (collectively, the "Subsidiary Guarantors"). All of the Subsidiary Guarantors (other than the Company) (the "Wholly Owned Subsidiary Guarantors") are wholly owned, directly or indirectly, by the Company or USANi LLC, as the case may be.

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

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## REPORT OF INDEPENDENT AUDITORS

## The Members of USANi LLC

We have audited the accompanying consolidated balance sheets of USANi LLC and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, members' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USANi LLC and subsidiaries at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2001, the Company adopted AICPA Statement of Position 00-2, "Accounting by Producers or Distributors of Films."

/s/ ERNST &amp; YOUNG LLP

New York, New York  
January 29, 2002

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## USANI LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, -----				
----- 2001 2000 1999 -----				
	----- Product			
sales.....				
	\$1,935,542	\$1,799,932	\$1,370,790	Service
revenue.....				
1,687,376	1,554,860	1,315,689	-----	
-----				Net revenues
	2,686,479	Operating costs and expenses: Cost of	3,622,918	3,354,792
		sales--product sales.....		
1,287,630	1,178,369	900,896	Cost of sales--service	
revenue.....	16,823	6,360	4,446	
	Program			
costs.....				
	726,549	684,992	630,956	Selling and
marketing.....				
	383,722	277,257	General and	421,259
administrative.....				
	284,800	231,003	Other operating	336,140

costs.....	132,801		
129,458 89,793 Amortization of cable distribution			
fees.....	43,975	36,322	26,680
Amortization of non-cash compensation			
expense.....	9,799	9,704	6,314
Depreciation and amortization.....	236,819		
376,791 175,539 -----			
Total operating costs and			
expenses.....	3,211,795	3,090,518	
2,342,884 -----			
Operating profit.....			
411,123 264,274 343,595 Other income (expense):			
Interest			
income.....	43,675	61,336	37,573
Interest			
expense.....	(73,183)	(69,659)	(73,106)
Gain on sale of securities.....	--	--	89,721
Gain on sale of subsidiary			
stock.....	--	104,625	--
Loss in unconsolidated subsidiaries and other.....			
(40,395) (45,859) 2,103 -----			
----- (69,903) 50,443 56,291 -----			
Earnings before income taxes and minority interest and cumulative effect of accounting change.....	341,220	314,717	399,886
Income tax			
expense.....	(13,133)	(26,437)	(5,501)
Minority interest.....	9,782	41,597	603
Earnings before cumulative effect of accounting change... 337,869 329,877 394,988 Cumulative effect of accounting change.....	6,470	--	--
-----			
NET			
EARNINGS.....			
\$ 344,339 \$ 329,877 \$ 394,988 -----			

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

USANI LLC AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, -----	2001	2000	-----
----- (IN THOUSANDS) ASSETS			
Cash and cash equivalents.....	\$ 779,592	\$ 71,816	
Accounts and notes receivable, net of allowance of \$30,586 and \$50,646, respectively.....	533,869		
Inventories,			
net.....	404,155		
Investments held for sale.....	--	750	
Other current assets, net.....	26,120	18,024	
Total current assets.....	1,743,736		
1,006,478 PROPERTY, PLANT AND EQUIPMENT			
Computer and broadcast equipment.....	132,712		
Buildings and leasehold improvements.....	79,043	71,979	
Furniture and other equipment.....	96,941	76,623	
Land.....			
10,386 10,281 Projects in progress.....	40,032		
32,747 -----			
359,114 335,189 Less accumulated depreciation and amortization.....			
(120,468) (83,549) -----	238,646	251,640	
OTHER ASSETS Intangible assets, net.....	4,970,259		
5,099,476 Cable distribution fees, net.....	158,880	159,473	
Long-term investments.....			
39,485 29,187 Notes and accounts receivable, net (\$99,819 and \$22,575, respectively, from related parties).....	130,368	33,571	
Inventories, net.....	484,679		
430,215 Advances to USA and subsidiaries.....	581,367	918,817	
Deferred charges and other,			

net.....	58,475	44,011	-----
-----	\$8,405,895	\$7,972,868	LIABILITIES AND MEMBERS'
EQUITY CURRENT LIABILITIES	Current maturities of long-term obligations.....		
payable, trade.....	\$ 32,911	\$ 20,053	Accounts payable, trade.....
201,484	233,063		Obligations for program rights and film costs.....
costs.....	272,601	283,812	Cable distribution fees payable.....
32,795	33,598		Deferred
revenue.....	58,949		
41,335			Other accrued
liabilities.....	409,286		
342,995			Total current
liabilities.....	1,039,605		
923,277			LONG-TERM OBLIGATIONS (net of current maturities).....
499,513	504,063		OBLIGATIONS FOR PROGRAM RIGHTS AND FILM COSTS, NET OF CURRENT.....
285,378	295,210		OTHER LONG-TERM
LIABILITIES.....	28,783	81,925	MINORITY
INTEREST.....	12,939		
28,662			COMMITMENTS AND
CONTINGENCIES.....	--	--	MEMBERS'
EQUITY Class A (261,947,704 and 252,679,887 shares, respectively).....			
2,090,818	2,007,736		Class B (282,161,530
shares).....	2,978,635	2,978,635	Class C (45,774,708
shares).....	466,252	466,252	Retained
earnings.....			
1,009,585	695,986		Accumulated other comprehensive
income.....	(5,613)	(8,878)	-----
-----			Total members'
equity.....	6,539,677		
6,139,731	-----	\$8,405,895	\$7,972,868
-----			-----

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

USANI LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

ACCUMULATED OTHER CLASS			
A LLC CLASS B LLC CLASS			
C LLC RETAINED			
COMPREHENSIVE UNEARNED			
TOTAL SHARES SHARES			
SHARES EARNINGS INCOME			
COMPENSATION -----			
-----			
-----			
----- (IN			
THOUSANDS) BALANCE AT			
DECEMBER 31,			
1998.....	\$5,115,405	\$1,753,618	
\$2,736,363	\$466,252	\$	
142,045	\$ 17,850	\$(723)	
Comprehensive income:			
Net earnings for the			
year ended December 31,			
1999.....	394,988	--	--
--	394,988	--	--
Decrease in unrealized			
gains in available for			
sale securities.....			
(17,850)	--	--	--
(17,850)	--	-----	
Comprehensive			
income....	377,138	--	--
-----			
- Issuance of LLC			
Shares.....			
410,545	168,273	242,272	
--	--	--	Repurchase
--	--	--	of LLC
shares.....			
(8,934)	(8,934)	--	--

-	--	--	Mandatory tax distribution to LLC partners.....	(52,755)	--	--	(52,755)	--	--
			Cancellation of employee equity program.....	280			(443)	--	--
									723
-----									
BALANCE AT DECEMBER 31, 1999.....									
				5,841,679	1,912,514				
				2,978,635	466,252				
				484,278	--	--			
			Comprehensive income:						
			Net earnings for the year ended December 31, 2000.....	329,877	--	--			
				--	329,877	--	--		
			Decrease in unrealized gains in available for sale securities.....	(9,291)	--	--			
				(9,291)	--	Foreign currency translation.....			
				413	--	--	413	--	--
-----									
			Comprehensive income....	320,999	--	--			
-----									
			- Issuance of LLC shares.....	225,129	225,129	--	--		
			- Repurchase of LLC shares.....	(129,907)	(129,907)	--	--		
			-- Mandatory tax distribution to LLC partners.....	(118,169)	--	--			
				(118,169)	--	-----			
-----									
BALANCE AT DECEMBER 31, 2000.....									
				6,139,731	2,007,736				
				2,978,635	466,252				
				695,986	(8,878)	--			
			Comprehensive income:						
			Net earnings for the year ended December 31, 2001.....	344,339	--	--			
				--	344,339	--	--		
			Decrease in unrealized gains in available for sale securities.....	9,291	--	--	9,291	--	--
			-- Foreign currency translation.....	(6,026)	--	--			
				(6,026)	--	-----			
			Comprehensive income.....	347,604	--	--			
-----									
			-- Issuance of LLC shares....	85,010					
			85,010	--	-----				
			Repurchase of LLC shares..	(1,928)					
			(1,928)	--	-----				
			Mandatory tax distribution to LLC partners.....	(30,740)	--	--			
				(30,740)	--	-----			
-----									
BALANCE AT DECEMBER 31, 2001.....									

\$6,539,677 \$2,090,818  
 \$2,978,635 \$466,252  
 \$1,009,585 \$ (5,613) \$

-----  
 -----  
 -----

--

Accumulated other comprehensive income is comprised of unrealized (losses) gains on available for sale securities of \$0 and \$(9,291) for December 31, 2001 and 2000, respectively and foreign currency translation adjustments of \$(5,613) and \$413 for December 31, 2001 and 2000 respectively. There were no foreign currency translation adjustments for December 31, 1999.

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

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USANI LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, -----

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

(IN THOUSANDS) CASH FLOWS FROM OPERATING ACTIVITIES: Net

earnings..... \$

344,339 \$ 329,877 \$ 394,988

ADJUSTMENTS TO RECONCILE NET

EARNINGS (LOSS) TO NET CASH PROVIDED BY OPERATING

ACTIVITIES: Depreciation and

amortization..... 236,819 376,791

175,539 Amortization of cable distribution

fees..... 43,975 36,322 26,680

Amortization

of program rights and film costs..... 658,328

597,659 532,900 Cumulative effect of accounting

change..... (6,470) -- -- Gain on sale of

subsidiary stock..... -- (104,625) --

Gain on sale of securities.....

-- -- (89,721) Amortization of deferred financing

costs..... -- 2,457 5,035

Non-cash stock

compensation..... 9,799 9,704

6,314 Equity in (earnings) losses of unconsolidated

affiliates.....

38,155 46,025 (1,866) Minority

interest..... (9,782)

(41,597) (603) CHANGES IN CURRENT ASSETS AND

LIABILITIES: Accounts

receivable..... (40,545)

(105,835) (33,879)

Inventories.....

30,210 (44,687) (16,805) Accounts

payable..... 25,118

34,425 (11,233) Accrued liabilities and deferred

revenue..... 1,530 41,136 28,738

Payment for

program rights and film costs..... (764,625)

(739,066) (555,383) Increase in cable distribution

fees..... (47,393) (64,876) (42,887)

Other, net.....

(17,319) (13,471) 9,881 -----

NET CASH PROVIDED BY OPERATING ACTIVITIES.....

502,139 360,239 427,698

CASH FLOWS FROM INVESTING

ACTIVITIES: Acquisitions, net of cash

acquired..... (35,845) (110,780)

(7,500) Capital

expenditures.....

(68,496) (94,826) (70,681)

Increase in long-term

investments and notes receivable... (110,871) (40,220)

(54,478) Proceeds from sale of

securities..... -- 2,194 107,231

Payment of merger and financing

costs..... -- -- -- Other,

net.....

21,627 (2,168) 8,654 -----

NET CASH USED IN INVESTING ACTIVITIES.....

(193,585) (245,800) (16,774)

CASH FLOWS FROM FINANCING

ACTIVITIES:

Borrowings.....

22,494 64,611 -- Payment of mandatory tax distribution

to LLC partners.... (30,740) (118,169) (52,755)

Principal payments on long-term

obligations..... (14,842) (60,981) (253,224)

Repurchase of LLC

shares..... (1,928)

(129,907) (8,934) Proceeds from issuance of LLC

shares..... 80,931 210,455 410,545



Advances from (to) USA and subsidiaries.....	351,239	(246,775)	
	(493,985)		
Other.....			
(5,821) (10,531) --			NET
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES....			
401,333 (291,297) (398,353) Effect of exchange rate changes on cash and cash equivalents.....			
(2,111) 1,200 --			NET
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS....			
707,776 (175,658) 12,571 Cash and cash equivalents at beginning of period.....	71,816	247,474	234,903 ----
-----			CASH AND CASH EQUIVALENTS
AT END OF PERIOD.....	\$ 779,592	\$ 71,816	\$
247,474 -----			

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

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION

GENERAL

USANi LLC (the "Company" or "LLC"), a Delaware limited liability company, was formed on February 12, 1998 and is a subsidiary of Home Shopping Network, Inc. ("Home Shopping" or "Holdco"), which is a subsidiary of USA Networks, Inc. ("USA"). At its formation, USA and Home Shopping contributed substantially all of the operating assets and liabilities of Home Shopping to the Company in exchange for Class A LLC Shares of the Company. On February 12, 1998, the Company acquired USA Networks, a New York general partnership consisting of USA Network and Sci Fi Channel, as well as the domestic television production and distribution businesses of Universal Studios (the "Universal Transaction"). LLC is organized into two groups, the Interactive Group and the Entertainment Group. The Interactive Group consists of Home Shopping Network (including HSN International and HSN.com); Electronic Commerce Solutions; and Styleclick (OTC: IBUY). The Entertainment Group consists of USA Cable, including USA Network and Sci Fi Channel and Emerging networks TRI0, Newsworld International, and Crime; and Studios USA, which produces and distributes television programming.

On December 17, 2001, USA and Vivendi Universal, S.A. ("Vivendi") announced a transaction (the "Vivendi Transaction") in which USA's Entertainment Group, consisting of USA Cable, Studios USA, and USA Films, would be contributed to Vivendi Universal Entertainment, a new joint venture controlled by Vivendi. See below for further discussion under "Subsequent Events".

SUBSEQUENT EVENTS (UNAUDITED)

CONTRIBUTION OF THE USA ENTERTAINMENT GROUP TO VUE

On December 17, 2001, USA announced it had entered into an agreement with Vivendi pursuant to which USA would contribute USA's Entertainment Group to a limited liability entity (Vivendi Universal Entertainment, "VUE") to be controlled by Vivendi, to which Vivendi would contribute the film, television and theme park businesses of Universal Studios, Inc. ("Universal"). Upon consummation of the Vivendi transaction, the joint venture will be controlled by Vivendi and its subsidiaries, with the common interests owned 93.06% by Vivendi, 5.44% by USA and 1.5% by Mr. Diller, Chairman and CEO of USA.

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

Related to the transaction, Liberty will exchange 7,079,726 shares of USANi LLC for shares of USA common stock, and subsequently transfer to Universal

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--ORGANIZATION (CONTINUED)

its remaining 38,694,982 shares of USANi LLC, as well as the assets and liabilities of Liberty Programming France (which consist primarily of 4,921,250 shares of multiThematiques S.A., a French entity), in exchange for 37,386,436 Vivendi ordinary shares.

In addition, USA will issue to Universal ten-year warrants to acquire shares of USA common stock as follows: 24,187,094 shares at \$27.50 per share; 24,187,094 shares at \$32.50 per share; and 12,093,547 shares at \$37.50 per share. Barry Diller, USA's chairman and chief executive officer, will receive a common interest in VUE with a 1.5% profit sharing percentage, with a minimum value of \$275.0 million, in return for his agreeing to specified non-competition provisions and agreeing to serve as chairman and chief executive officer of VUE. USA and Mr. Diller have agreed that they will not compete with Vivendi's television and filmed entertainment businesses (including VUE) for a minimum of 18 months.

In February 2002, Mr. Diller assigned to three executive officers of USA, the right to receive economic interests in a portion of the common interests in VUE that Mr. Diller will receive upon closing of the transactions.

The Vivendi Transaction is subject to USA shareholder vote, including the approval of 66 2/3% of the outstanding USA common stock and USA preferred stock, voting together as a single class, and excluding shares held by Vivendi, Liberty, Mr. Diller and their respective affiliates, as well as other customary regulatory approvals, and there can be no assurance that the transaction will be completed.

BASIS OF PRESENTATION

The contribution of assets by USA and Home Shopping to the Company was accounted for in the accompanying consolidated financial statements in a manner similar to the pooling-of-interests for business combinations due to the common ownership of Home Shopping and USANi LLC. Accordingly, the assets and liabilities were transferred to the LLC at Home Shopping's historical cost.

Given that equity interests in limited liability companies are not in the form of common stock, earnings per share data is not presented.

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 HSN--Germany based upon a Pooling Agreement allowing for the Company to elect a majority of the Board of Directors and to control the operations of HSN--Germany. Significant intercompany transactions and accounts have been eliminated.

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

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

#### ELECTRONIC RETAILING

Revenues from Home Shopping primarily consist of merchandise sales and are reduced by incentive discounts and sales returns to arrive at net sales. Revenues for domestic sales are recorded for credit card sales upon transaction authorization, which occurs only if the goods are in stock, and for check sales upon receipt of customer payment, which does not vary significantly from the time goods are shipped. Revenues for international sales are recorded upon shipment. Home Shopping's sales policy allows merchandise to be returned at the customer's discretion within 30 days of the date of delivery. Allowances for returned merchandise and other adjustments are provided based upon past experience.

#### OTHER

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

#### FILM COSTS

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

Generally, the estimated ultimate costs of completed film costs are amortized, and participation expenses are accrued, for each production in the proportion that current period revenue recognized

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#### USANI LLC AND SUBSIDIARIES

##### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 year ended December 31, 2001 was \$42.2 million. Barter revenues for the year ended December 31, 2000 and 1999 are not material to the Company's statement of operations.

## 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 \$40.4 million and \$37.9 million at December 31, 2001 and 2000, respectively.

## CASH AND CASH EQUIVALENTS

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

## PROPERTY, PLANT AND EQUIPMENT

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

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## USANI LLC AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### ASSET CATEGORY DEPRECIATION/AMORTIZATION PERIOD -

-----		
Computer and broadcast equipment.....	3 to 13 Years	
Buildings.....	30 to 40 Years Leasehold	
improvements.....	4 to 20 Years Furniture and other equipment.....	3 to 10 Years

Depreciation and amortization expense on property, plant and equipment was \$83.6 million, \$65.2 million and \$41.0 million for the years ended December 31, 2001, 2000 and 1999, respectively.

#### LONG-LIVED ASSETS INCLUDING INTANGIBLES

The Company's accounting policy regarding the assessment of the recoverability of the carrying value of long-lived assets, including goodwill and other intangibles and property, plant and equipment, is to review the carrying value of the assets if the facts and circumstances suggest that they may be impaired. If this review indicates that the carrying value will not be recoverable, as determined based on the projected undiscounted future cash flows, the carrying value is reduced to its estimated fair value. See below under "New Accounting Pronouncements" for further information related to goodwill and other intangible assets. The Company amortizes goodwill and other intangible assets over their estimated useful lives, which range from 3 to 40 years for goodwill and 1 to 5 years for intangibles.

#### CABLE DISTRIBUTION FEES

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

#### ADVERTISING

Advertising costs are primarily expensed in the period incurred. Advertising expense for the years ended December 31, 2001, 2000 and 1999 were \$137.3 million, \$127.5 million and \$95.5 million, respectively.

#### STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation issued to employees in accordance with APB 25, "Accounting for Stock Issued to Employees." In cases where exercise prices are less than fair value as of the grant date, compensation is recognized over the vesting period. For stock-based compensation issued to non-employees, the Company accounts for the grants in accordance with FASB Statement No. 123, "Accounting for Stock Based Compensation."

#### MINORITY INTEREST

Minority interest represents the ownership interests of third parties in the net assets and results of operations of certain consolidated subsidiaries. Minority interest primarily represents the public's ownership interest in Styleclick since July 27, 2000 and the public's ownership interest in HSN--Germany since its consolidation as of January 1, 2000.

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USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
FOREIGN CURRENCY TRANSLATION

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

ISSUANCES OF SUBSIDIARY STOCK

The Company accounts for issuances of stock by a subsidiary via income statement recognition, recording income or losses as non-operating income/(expense). During the year ended December 31, 2000, the Company recorded a gain of \$104.6 million related to the issuance of subsidiary stock. See Note 3 for further discussion.

ACCOUNTING ESTIMATES

Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with generally accepted accounting principles. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates.

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

NEW ACCOUNTING PRONOUNCEMENTS

GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, all calendar year companies will be required to adopt Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets." The new rules eliminate amortization of goodwill and other intangible assets with indefinite lives and establish new measurement criterion for these assets. Although it has not completed its assessment, the Company does not anticipate a write-off upon adoption.

The rules are expected to reduce USA's annual amortization by approximately \$145.4 million.

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,

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USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SOP 00-2 requires development costs for abandoned projects and certain indirect overhead costs to be charged directly to expense, instead of those costs being capitalized to film costs, which was required under the previous accounting rules. SOP 00-2 also requires all film costs to be classified in the balance sheet as non-current assets. Provisions of SOP 00-2 in other areas, such as

revenue recognition, generally are consistent with the Company's existing accounting policies.

SOP 00-2 was adopted as of January 1, 2001, and the Company recorded a one-time, non-cash benefit of \$6.5 million. The benefit is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

#### RECLASSIFICATIONS

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

#### NOTE 3--BUSINESS ACQUISITIONS

##### STYLECLICK TRANSACTION

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

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

(IN THOUSANDS) -----	Value of portion
	of Styleclick.com acquired in the merger...
\$121,781	Additional cash and promotional
investment by USA.....	50,000 Fair value
	of outstanding "in the money options" and
	warrants of
Styleclick.com.....	37,989 Transaction
costs.....	
2,144 -----	Total acquisition
costs.....	
\$211,914 -----	

The fair value of Styleclick.com was based on the fair value of \$15.78 per share times 7.7 million shares outstanding. Fair value of the shares was determined by taking an average of the opening and closing price of Styleclick.com common stock for the period just before and just after the terms of the transaction were agreed to by the Company and Styleclick.com and announced to the public. In conjunction with the transaction, the Company recorded a pre-tax gain of \$104.6 million in accordance with Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock by a Subsidiary", based upon the 25% of ISN's net book value exchanged for 75% of Styleclick.com's fair value, determined based upon the fair value of Styleclick.com common stock received in the merger.

#### USANI LLC AND SUBSIDIARIES

##### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 3--BUSINESS ACQUISITIONS (CONTINUED)

The Styleclick transaction has been accounted for under the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of purchase. The unallocated excess of acquisition costs over net assets acquired of \$170.2 million has been allocated to goodwill, which originally was being amortized over 3 years.

In March 2001, Styleclick announced a new company organization designed to advance its offering of scaleable commerce services. The announcement included Styleclick's acquisition of the MVP.com technology platform. Also in March 2001, the Styleclick Board elected two executives of ECS to top management positions at Styleclick, and certain senior executives of Styleclick left the Company. As of December 31, 2000, as a result of the historical and anticipated operating losses of Styleclick, and the continuing evaluation of the operations and technology, Styleclick determined the goodwill recorded in conjunction with the Styleclick Merger was impaired and recorded a write-down of \$145.6 million as goodwill amortization in fiscal 2000. Since the second quarter of 2001, Styleclick has focused on e-commerce services and technology while eliminating its online retail business. During this transition, Styleclick continued to incur significant net losses from operations that raise substantial doubt about Styleclick's ability to continue as a going concern. Styleclick is considering its options with respect to the situation.

BUSINESS ACQUISITION PRO FORMA RESULTS

The following unaudited pro forma condensed consolidated financial information for the twelve months ended December 31, 2000 and 1999 is presented to show the results of the Company as if the Styleclick Transaction had occurred on January 1, 2000. The pro forma results reflect 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 January 1, 1999.

YEAR ENDED DECEMBER 31, -----		
2000 1999 -----		Net
revenues.....		
	\$3,356,681	\$2,692,653 Net
income.....		
	321,026	351,630

NOTE 4--INTANGIBLE ASSETS

Intangible assets represents goodwill which is amortized using the straight-line method over periods ranging from 3 to 40 years.

Goodwill primarily relates to various transactions, and represents the excess of purchase price over the fair value of assets acquired and is net of accumulated amortization of \$573.1 million and \$453.6 million at December 31, 2001 and 2000, respectively.

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USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5--LONG-TERM OBLIGATIONS

DECEMBER 31, -----	2001	2000
----- (IN THOUSANDS) Unsecured Senior Credit Facility ("New Facility"); with a \$40,000,000 sub-limit for letters of credit, entered into February 12, 1998, which matures on December 31, 2002. At the Company's option, the interest rate on borrowings is tied to the London Interbank Offered Rate ("LIBOR") or the Alternate Base Rate ("ABR"), plus an applicable margin. Interest rate at December 31, 2000 was 2.9%.....		\$ --
\$ -- \$500,000,000 6 3/4% Senior Notes (the "Senior Notes") due November 15, 2005; interest payable May 15 and November 15 commencing May 15, 1999. Interest rate at December 31, 2001 was		
6.75%.....	498,515	
498,213 Other long-term obligations maturing through 2005.....	33,909	25,903
----- Total long-term obligations.....		
532,424 524,116 Less current maturities.....		
(32,911) (20,053) ----- Long-term obligations, net of current maturities.....	\$499,513	\$504,063 -----
-----		

On February 12, 1998, USA and USANi LLC, as borrower, entered into a credit agreement which provides for a \$1.6 billion credit facility. The credit facility was used to finance the Universal Transaction and to refinance USA's then-existing \$275.0 million revolving credit facility. The credit facility consists of (1) a \$600.0 million revolving credit facility with a \$40.0 million sub-limit for letters of credit, (2) a \$750.0 million Tranche A Term Loan and, (3) a \$250.0 million Tranche B Term Loan. The Tranche A Term Loan and the Tranche B Term Loan have been permanently repaid as of December 31, 1999, as described below.

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

that with the closing of the Vivendi Transaction, the Company expects that the existing credit facility will expire.

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

YEARS ENDING DECEMBER 31, (IN THOUSANDS) -	-----
2002.....	\$ 32,911
2003.....	748
2004.....	50
2005.....	498,715 ----- \$532,424 -----

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USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--INCOME TAXES

The Company was formed as a limited liability company on February 12, 1998 and is treated as a partnership for income tax purposes. As such, the individual LLC members are subject to federal and state taxes based on their allocated portion of income and expenses and the Company is not subject to Federal and state income taxation. The Company is subject to taxes in Germany and New York unincorporated business tax.

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, as well as broadcast and production facilities, equipment and services used in connection with its operations under various operating leases and contracts, many of which contain escalation clauses.

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

YEARS ENDING DECEMBER 31, (IN THOUSANDS) -	-----
2002.....	\$ 42,608
2003.....	23,089
2004.....	20,088
2005.....	10,480
2006.....	7,029
Thereafter.....	41,384 ----- \$144,678 -----

Expenses charged to operations under these agreements were \$61.8 million, \$56.4 million and \$46.1 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Unrecorded commitments for program rights consist of programs for which the license period has not yet begun or the program is not yet available to air. As of December 31, 2001, the unrecorded commitments amounted to \$968.0 million. Annual commitments are \$153.8 million in 2002, \$173.5 million in 2003, \$189.1 million in 2004, \$155.0 million in 2005, \$112.4 million in 2006 and \$184.2 million in 2007 and thereafter.

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

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USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)



NOTE 8--INVENTORIES

DECEMBER 31, 2001	DECEMBER 31, 2000	-----
		----- CURRENT NONCURRENT
CURRENT NONCURRENT		-----
----- (IN THOUSANDS) Film costs: Released, net		
of amortization.....	\$ --	
\$210,325	\$ --	\$216,656 In process and
unreleased.....	-- 25,411	--
34,713 Programming costs, net of		
amortization.....	209,798	248,943 172,493
178,846 Sales merchandise,		
net.....	194,357	--
224,030		-----
Total.....		-----
\$404,155	\$484,679	\$396,523 \$430,215
		-----

The Company estimates that approximately 90% of unamortized film costs at December 31, 2001 will be amortized within the next three years.

NOTE 9--MEMBERS' EQUITY

On January 20, 2000, the Board of Directors declared a two-for-one stock split of USANI LLC's members' equity interests, payable in the form of a dividend to shareholders of record as of the close of business on February 10, 2000. The 100% stock dividend was paid on February 24, 2000. All share numbers give effect to such stock split.

In connection with the Universal Transaction, the Company was formed through the authorization and issuance of three classes of shares, Class A LLC Shares, Class B LLC Shares and Class C LLC Shares. In return for LLC Shares (i) USA (and certain of its subsidiaries) contributed its assets and liabilities related to its Electronic retailing and Internet services businesses and (ii) Universal (and certain of its subsidiaries) contributed USA Cable and Studios USA. On June 30, 1998, and in connection with the Universal Transaction, Liberty purchased 30,000,000 Class C LLC Shares for \$308.5 million. USA, Home Shopping, Universal and Liberty (and their respective subsidiaries) are collectively referred to herein as the "Members".

In connection with various equity transactions at USA in 1998, Universal completed its mandatory purchase obligation in exchange for total consideration of \$539.3 million in the form of \$234.7 million in cash and \$304.6 million applied against the deferred purchase obligations (including accrued interest).

In 1998, Liberty exercised certain of its preemptive rights and acquired 9,394,900 shares of USA Common Stock in exchange for \$93.9 million. USA contributed \$93.9 million to the LLC in exchange for 9,394,900 Class A LLC Shares. In addition, Liberty exercised certain of its preemptive rights and acquired 15,774,708 Class C LLC Shares in exchange for \$157.7 million in cash.

On December 30, 1998, USA acquired from Universal an entity which owned 3,411,308 Class B LLC shares in exchange for issuing to Universal 670,000 shares of USA Class B Common Stock and 2,741,308 shares of USA Common Stock. The transaction resulted in those Class B LLC Shares being converted into Class A LLC Shares.

In 2000, in connection with Liberty's exercise of certain of its preemptive rights, USA acquired 7,920,274 Class A LLC shares in exchange for \$179.1 million. In addition, USA sold 5,836,950 Class A LLC shares back to the LLC in exchange for \$129.9 million.

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--MEMBERS' EQUITY (CONTINUED)

In 1999, USA acquired 7,277,290 Class A LLC shares in exchange for \$120.3 million. In addition, USA acquired 11,244,900 Class A LLC shares in exchange for \$48.0 million and sold 477,892 Class A LLC shares back to the LLC in exchange for \$8.9 million.

In 1999, Universal exercised certain of its preemptive rights and acquired 14,781,752 Class B LLC shares in exchange for \$242.3 million.

Each of the classes of the LLC Shares are identical in all material respects. The business and affairs of the Company are managed by Mr. Barry Diller and USA in accordance with the Governance Agreement among USA, Universal, Liberty and Mr. Diller.

By various methods, Universal and Liberty hold the right, from time to time, to exchange Class B LLC Shares and Class C LLC Shares of the Company for either USA Common Stock or USA Class B Common Stock.

In connection with the Vivendi Transaction, the Company expects to cancel 282,161,530 Class B LLC Shares and 45,774,708 Class C LLC Shares of the Company. In total, 327,936,238 are expected to be cancelled, with 7,079,726 exchanged for USA Common Stock.

NOTE 10--LITIGATION

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

NOTE 11--BENEFIT PLANS

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

NOTE 12--STOCK OPTION PLANS

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

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

USA also has outstanding options to outside directors under one plan (the "Directors Plan") which provides for the grant of options to purchase USA's common stock at not less than fair market value on the date of the grant. The options under the Directors Plan vest ratably, generally over three years from the date of grant and expire not more than 10 years from the date of grant. A summary of

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--STOCK OPTION PLANS (CONTINUED)

changes in outstanding options under the stock option plans following the Company's two-for-one stock split, is as follows:

DECEMBER 31, -----			
-----			
2001	2000	1999	-----
-----			
PRICE RANGE	PRICE RANGE	PRICE RANGE	SHARES RANGE
-----			
(SHARES IN THOUSANDS) Outstanding at beginning of period..... 78,053 \$			
1-\$37	68,330	\$ 1-\$37	68,916 \$ 2-37
Granted or issued in connection with mergers.....			
5,676	\$19-\$28	13,445	\$17-\$28 8,093
			\$16-28
Exercised.....			
(7,016)	\$ 3-\$28	(1,915)	\$ 3-\$17
		(7,881)	\$ 1-13
Cancelled.....			
(1,060)	\$ 5-\$28	(1,807)	\$ 6-\$37 (798)
	\$ 6-18		-----
Outstanding at end of period..... 75,653 \$ 1-\$28			
78,053	\$ 1-\$28	68,330	\$ 1-37 -----
-----			
-- Options			
exercisable..... 58,591			
\$ 1-\$28	52,082	\$ 1-\$37	44,697 \$ 1-37 -
-----			

The weighted average exercise prices during the year ended December 31, 2001, were \$22.87, \$8.93 and \$20.62 for options granted, exercised and cancelled, respectively. The weighted average fair value of options granted during the year was \$9.69.

The weighted average exercise prices during the year ended December 31, 2000, were \$20.92, \$9.69 and \$20.13 for options granted, options exercised and options cancelled, respectively. The weighted average fair value of options granted during the year was \$8.10.

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

OPTIONS OUTSTANDING -----

----- OPTIONS  
EXERCISABLE WEIGHTED -----

-----  
AVERAGE WEIGHTED WEIGHTED  
REMAINING AVERAGE  
EXERCISABLE AT AVERAGE  
OUTSTANDING AT  
CONTRACTUAL EXERCISE  
DECEMBER 31, EXERCISE  
RANGE OF EXERCISE PRICE  
DECEMBER 31, 2000 LIFE  
PRICE 2000 PRICE - -----

----- (IN  
THOUSANDS) \$ 0.01 to \$

5.00.....				
18,043	3.9	\$ 4.72	18,043	
		\$ 4.72	\$ 5.01 to	
\$10.00.....				
30,088	5.0	8.43	30,085	
		8.43	\$10.01 to	
\$15.00.....				
4,008	6.5	12.46	2,795	
		12.42	\$15.01 to	
\$20.00.....				
8,422	7.2	18.74	3,748	
		18.71	\$20.01 to	
\$25.00.....				
11,462	8.4	22.81	2,294	
		22.50	\$25.01 to	
\$27.91.....				
3,630	8.1	27.71	1,626	
		27.90	-----	
75,653	5.7	10.27	58,591	
		7.53	-----	

Pro forma information regarding net income and earnings per share is required SFAS 123. The information is determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair market value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--STOCK OPTION PLANS (CONTINUED)

weighted-average assumptions for 2001, 2000 and 1999: risk-free interest rates of 5.0%; a dividend yield of zero; a volatility factor of .72 .62, and .44, respectively, based on the expected market price of 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.

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

	2001	2000	1999
income.....	\$357,900	\$268,677	\$264,008

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.

NOTE 13--STATEMENTS OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 2001:

For the twelve months ended December 31, 2001, the Company incurred non-cash compensation expense of \$9.8 million, including \$4.9 million related to an agreement with an executive.

In 2001 the Company realized pre-tax losses of \$30.7 million on equity losses in unconsolidated subsidiaries, resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2001 the Company realized pre-tax losses of \$7.9 million related to the write-off of equity investments to fair value. The write-off in equity investments was based upon management's estimate of the current value of the investments, considering the current business environment, financing opportunities of the investees, anticipated business plans and other factors. Note that the majority of investments were in Internet related companies.

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 2000:

As of January 1, 2000 the Company began to consolidate the accounts of HOT Germany, an electronic retailer operating principally in Germany, 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.

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13--STATEMENTS OF CASH FLOWS (CONTINUED)

For the twelve months ended December 31, 2000, the Company incurred non-cash compensation expense of \$9.7 million, including \$3.8 million related to a consulting agreement with an executive.

In 2000 the Company realized pre-tax losses of \$7.9 million on equity losses in unconsolidated subsidiaries resulting primarily from HOT Networks, which operates electronic retailing operations in Europe. In 2000 the Company also realized pre-tax losses of \$35.9 million related to the write-off of equity investments to fair value. The write-off in equity investments was based upon management's estimate of the current value of the investments, considering the current business environment, financing opportunities of the investees, anticipated business plans and other factors. Note that the majority of investments were in Internet related companies.

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 1999:

For the twelve months ended December 31, 1999, the Company incurred non-cash compensation expense of \$6.5 million.

In 1999, the Company acquired post-production equipment through a capital lease totaling \$2.5 million.

Supplemental disclosure of cash flow information:

YEARS ENDED DECEMBER 31,	2001	2000	1999
- (IN THOUSANDS) CASH PAID DURING THE PERIOD FOR:			
Interest.....	\$35,856	\$35,688	\$47,112
Income tax payments.....	12,499	5,680	3,935
Income tax refund.....	1,053	1,250	--

## NOTE 14--RELATED PARTY TRANSACTIONS

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

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

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

In addition, the Company and Universal entered into a Domestic Television Distribution Agreement under which the Company distributes in the United States certain of Universal's television

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## USANI LLC AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 14--RELATED PARTY TRANSACTIONS (CONTINUED)

programming. For the years ended December 31, 2001, 2000 and 1999, Universal paid the Company \$4.1 million, \$1.5 million and \$1.5 million, respectively.

Home Shopping has affiliation agreements with USA Broadcasting ("USAB"), a wholly owned subsidiary of USA which provides for the USAB's broadcast of Home Shopping's electronic retailing programming on a full-time basis. Expense related to these affiliation agreements with USAB for the years ended December 31, 2001, 2000 and 1999 was \$17.1 million, \$35.0 million and \$38.1 million, respectively.

Under the USANi LLC Operating Agreement, USANi LLC is obligated to make a distribution to each of the LLC members in an amount equal to each member's share of USANi LLC's taxable income at a specified tax rate. The estimated amount for 2001 is \$153.5 and is expected to be paid on February 28, 2002. In March 2000, the Company made a mandatory tax distribution payment to the partners in the amount of \$118.1 million related to the year ended December 31, 1999, of which \$50.1 was paid to USA. In March 1999, the Company paid \$52.8 million, of which \$24.0 million was paid to USA.

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--TRANSACTIONS WITH USA AND SUBSIDIARIES

Advances to USA and subsidiaries generally represent net amounts transferred from the Company to USA and its subsidiaries to fund operations and other related items. Pursuant to the Investment Agreement, all excess cash held at USA and subsidiaries is transferred to the Company no less frequently than monthly and the Company may transfer funds to USA to satisfy obligations of USA and its subsidiaries. Under the Investment Agreement, transfers of cash are evidenced by a demand note and accrue interest at the Company's borrowing rate under the credit facility.

During the year ended December 31, 2001, net transfers from USA to USANi LLC totaled approximately \$547.0 million, principally due to the proceeds of \$589.6 from the 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., and net receipts of \$67.4 million and \$23.8 million from USA Films and PRC, respectively. The receipts were offset by \$77.8 million to fund two acquisitions by PRC and \$40.9 million to fund the operations of USA's television broadcast operations, as USA continued to air HSN programming on a majority of the stations until January 2002.

During the year ended December 31, 2000, net transfers from USANi LLC to USA totaled approximately \$350.4 million, including \$70.8 million related to contingent purchase price payments on the Hotel Reservations Network transaction, \$69.2 million to fund the operations of USA's television broadcast operations, \$50.7 million to fund the operations and acquisitions of Ticketmaster, \$26.9 million to fund the operations and acquisition of PRC and \$32.3 million to pay off outstanding debt of PRC at the date of acquisition,

offset partially by net receipts of \$25.1 million from USA Films.

During the year ended December 31, 1999, net transfers from USANi LLC to USA totaled approximately \$429.1 million, including \$372.2 million related to the Hotel Reservations Network Transaction and the October Films/PFE Transaction (including \$200 million advanced to Universal pursuant to an eight year, full recourse, interest-bearing note in connection with the acquisition of

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15--TRANSACTIONS WITH USA AND SUBSIDIARIES (CONTINUED)

October Films, in which Universal owned a majority interest, and the domestic film distribution and development business of Universal previously operated by Polygram Filmed Entertainment, Inc.), \$50.9 million to fund the operations of USA's television broadcast operations, \$98.6 million to repay a portion of the outstanding borrowings assumed in the October Films/PFE Transaction and \$8.8 million to fund the operations of USA Films. Funds were also transferred to USA to purchase shares of treasury stock. These amounts were offset by \$79.4 million and \$40.0 million of funds transferred to USANi LLC from the Ticketing operations business and the Hotel reservations business, respectively. During the year ended December 31, 1998 net cash transfers totaling approximately \$118.2 million were made to repay USA's revolving credit facility, repay Ticketmaster's bank credit facility, and fund the operations of USA's broadcast operation, offset by proceeds from the sale of the assets of SF Broadcasting and USA's Baltimore television station. The interest incurred on the net transfers for the years ended December 31, 2000, 1999 and 1998 was approximately \$2.9 million, \$7.2 million and \$9.5 million, respectively.

The Company allocates certain overhead expenses to the USA parent company based upon the fair value of services performed. Expenses allocated for the periods ended December 31, 2001, 2000 and 1999 were \$8.6 million, \$11.6 million and \$8.6 million, respectively.

In accordance with the Investment Agreement, certain transfers of funds between the Company and USA are not evidenced by a demand note and do not accrue interest, primarily relating to the establishment of the operations of the Company and to equity contributions.

NOTE 16--QUARTERLY RESULTS (UNAUDITED)

	QUARTER ENDED DECEMBER 31, 2001	QUARTER ENDED DECEMBER 31, 2000	QUARTER ENDED SEPTEMBER 30, 2000	QUARTER ENDED JUNE 30, 2000	YEAR ENDED DECEMBER 31, 2001
(IN THOUSANDS)					
revenues.....	\$942,687	\$862,646	\$912,803	\$904,782	
Operating					
profit.....	96,097	92,412	107,697	114,917	
earnings(a)					
(b).....	82,924	90,805	106,087	64,523	
YEAR ENDED DECEMBER 31, 2000 Net					
revenues.....	\$970,939	\$776,881	\$799,806	\$807,166	
Operating					
profit.....	(34,826)	81,347	99,769	117,984	
earnings(a)					
(c).....	148,020	88,783	105,119	(12,045)	

(a) The Company recorded losses of \$7.5 million and \$0.4 million during the fourth and second quarters of 2001, respectively, related to the write-down of equity investments to fair value. The Company recorded losses of \$5.4 million and \$30.5 million during the fourth and third quarters of 2000, respectively, related to the write-down of equity investments to fair value.

(b) During the first quarter of 2001, the Company adopted Statement of Position 00-2, "Accounting By Producers or Distributors of Films." The Company recorded income of \$6.5 million related to the cumulative effect of adoption.

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

related to the impairment of Styleclick goodwill.

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17--INDUSTRY SEGMENTS

The Company operates principally in five industry segments: Cable and studios, HSN-US, ECS/ Styleclick, Emerging networks and HSN-International and other.

Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") is defined as operating income plus (1) depreciation and amortization, (2) amortization of cable distribution fees of \$44.0 million, \$36.3 million and \$26.7 million in fiscal years 2001, 2000 and 1999, respectively (3) amortization of non-cash distribution and marketing expense and (4) disengagement expenses (described below) of \$4.1 million in 2001. Adjusted EBITDA is presented here as a tool and as a valuation methodology used by management in evaluating the business. Adjusted EBITDA does not purport to represent cash provided by operating activities. Adjusted EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Adjusted EBITDA may not be comparable to calculations of similarly titled measures presented by other companies.

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

TWELVE MONTHS ENDED DECEMBER 31, -----	2001	2000	1999	---
-----				
Operating profit.....	\$411,123	\$264,274	\$343,595	-----
and amortization.....			236,819	
376,791 175,539 Amortization of cable distribution fees.....	43,975	36,322		
26,680 Amortization of non cash compensation expense.....	9,799	9,704	6,314	-----
Disengagement expenses.....	4,052	--	--	
-----				
Adjusted EBITDA.....	\$705,768	\$687,091	\$552,128	-----
-----				

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	---
-----				
(IN THOUSANDS) REVENUES Cable and studios.....	\$1,633,130	\$1,525,124	\$1,304,683	-----
U.S. (a).....	1,658,904	1,533,271	1,332,911	-----
Electronic Commerce Solutions/Styleclick.....	34,229	30,350	31,886	-----
Trio, NWI, Crime, other emerging media... 24,086 20,332 1,188 HSN--International and other (b).....	272,569	245,715	8,917	-----
Other.....	--	--	6,894	-----
-----				
TOTAL.....	\$3,622,918	\$3,354,792	\$2,686,479	-----
-----				

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17--INDUSTRY SEGMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, -----	2001	2000	1999	---
-----				
(IN THOUSANDS) OPERATING PROFIT (LOSS) Cable and studios.....	\$			-----

486,667 \$ 435,116 \$ 320,878 HSN--U.S.  
(a)(c).....  
86,825 105,152 104,963 Electronic  
Commerce  
Solutions/Styleclick.....  
(73,145) (230,021) (46,588) Trio, NWI,  
Crime, other emerging media...  
(20,133) (13,244) (2,989) HSN--  
International and other (b).....  
(34,907) 4,641 (4,517) Corporate &  
other..... (34,184)  
(37,370) (28,152) -----  
-----  
TOTAL.....  
\$ 411,123 \$ 264,274 \$ 343,595 -----  
----- ADJUSTED  
EBITDA Cable and  
studios..... \$  
613,587 \$ 547,684 \$ 434,084 HSN--U.S.  
(a).....  
213,239 211,462 188,984 Electronic  
Commerce  
Solutions/Styleclick.....  
(58,364) (50,163) (43,421) Trio, NWI,  
Crime, other emerging media...  
(11,467) (7,120) (2,989) HSN--  
International and other (b).....  
(25,306) 10,740 (4,505) Corporate &  
other..... (25,921)  
(25,512) (20,025) -----  
-----  
TOTAL.....  
\$ 705,768 \$ 687,091 \$ 552,128 -----  
----- ASSETS Cable  
and studios.....  
\$6,189,380 \$5,885,301 \$5,524,236 HSN--  
U.S.....  
1,849,946 1,855,512 1,771,560  
Electronic Commerce  
Solutions/Styleclick.....  
(42,751) 36,726 28,623 Trio, NWI,  
Crime, other emerging media... 97,376  
100,943 200 HSN--International and  
other..... 212,549 133,654  
37,840 Corporate &  
other..... 99,395  
(39,268) 110,467 -----  
-----  
TOTAL.....  
\$8,405,895 \$7,972,868 \$7,472,926 -----  
-----  
DEPRECIATION AND AMORTIZATION OF  
INTANGIBLES AND CABLE DISTRIBUTION  
FEES Cable and  
studios..... \$  
122,008 \$ 112,568 \$ 113,034 HSN--  
U.S.....  
122,115 106,059 83,796 Electronic  
Commerce  
Solutions/Styleclick.....  
14,589 179,858 3,167 Trio, NWI, Crime,  
other emerging media... 8,666 6,124 --  
HSN--International and  
other..... 9,601 6,099 12  
Corporate &  
other..... 3,815  
2,405 2,210 -----  
-----  
TOTAL.....  
\$ 280,794 \$ 413,113 \$ 202,219 -----  
-----

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17--INDUSTRY SEGMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, -----  
----- 2001 2000 1999  
----- (IN  
THOUSANDS) CAPITAL EXPENDITURES Cable  
and studios..... \$



12,907	\$ 15,229	\$ 6,771	HSN--
U.S.			
42,615	34,122	33,412	Electronic Commerce
Solutions/Styleclick			
2,292	5,047	13,657	Trio, NWI, Crime, other emerging media... 61 600 -- HSN-
-International and other			
6,031	18,105	13,746	Corporate & other..... 4,590
21,723	3,095		
TOTAL			
\$ 68,496	\$ 94,826	\$ 70,681	

- (a) Includes estimated revenue in 2000 generated by homes lost by HSN following the sale of USA Broadcasting to Univision of \$6.2 million. Adjusted EBITDA for these homes is estimated at \$0.9 million.
- (b) Includes impact of foreign exchange fluctuations, which reduced revenue by \$44.0 million and \$36.3 million in 2001 and 2000, respectively, if the results are translated from Euros to U.S. dollars at a constant exchange rate, using 1999 as the base year.
- (c) 2001 includes \$4.1 million of costs incurred related to the disengagement of HSN from USA Broadcasting stations. Amounts primarily related to payments to cable operators and related marketing expenses in the disengaged markets.

NOTE 18--FINANCIAL INSTRUMENTS

The additional disclosure below of the estimated fair value of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies when available. The carrying value of all current assets and current liabilities approximates fair value due to their short-term nature.

DECEMBER 31, 2001	DECEMBER 31, 2000
CARRYING FAIR CARRYING	FAIR AMOUNT VALUE AMOUNT VALUE
---- (IN THOUSANDS)	
equivalents.....	\$
779,592	\$ 779,592
Long-term	
investments.....	
39,485	39,485
Long-term	
obligations.....	
(532,424)	(532,424)
(524,116)	(524,116)

NOTE 19--EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

At December 31, 2001, USA beneficially owned 46.7% of the outstanding common stock of Hot Networks AG, a German stock corporation, the subsidiaries of which operate electronic retailing operations in Europe. This investment is accounted for using the equity method. Due to the

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 19--EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES (CONTINUED)  
significance of the results of Hot Networks, AG, in relation to USA's results, summary financial information for Hot Networks AG is presented below. There were no significant operations in 1999.

AS OF AND FOR THE YEARS ENDED DECEMBER 31, -----	
----- 2001 2000 -----	
Current	
assets..... \$	
17,597	\$ 6,943
Noncurrent	
assets.....	
157,274	42,784
Current	
liabilities.....	
46,085	37,531
Noncurrent	
liabilities.....	
194,249	23,668
Net	

sales.....	8,215 6,242 Gross
profit.....	277 1,301 Net
loss.....	(51,453) (20,254)

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

NOTE 20--PROGRAM RIGHTS AND FILM COSTS

As of December 31, 2001, the liability for program rights, representing future payments to be made under program contract agreements amounted to \$510.1 million. Annual payments required are \$259.3 million in 2002, \$156.6 million in 2003, \$70.8 million in 2004, \$17.0 million in 2005, \$3.9 million in 2006 and \$2.5 million in 2007 and thereafter. Amounts representing interest are \$48.1 million and the present value of future payments is \$462.0million.

As of December 31, 2001, the liability for film costs amounted to \$95.9 million. Annual payments are \$51.6 million in 2002, \$42.4 million in 2003 and \$1.9 million in 2004.

NOTE 21--GUARANTEE OF NOTES

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

Separate financial statements for each of the Wholly Owned Subsidiary Guarantors are not presented and such Wholly Owned Subsidiary Guarantors are not filing separate reports under the Securities Exchange Act of 1934 because USA's and the Company's management has determined that the information contained in such documents would not be material to investors. USANi LLC and its subsidiaries have no material restrictions on their ability to transfer amounts to fund USA's operations.

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 21--GUARANTEE OF NOTES (CONTINUED)

During 2000, in conjunction with the Styleclick Transactions, Styleclick became a non-guarantor. The following information is presented as of and for the years ended December 31, 2001 and 2000:

As of and for the year ended December 31, 2001

WHOLLY OWNED USANI			
SUBSIDIARY NON-GUARANTOR			
LLC LLC GUARANTORS			
SUBSIDIARIES ELIMINATIONS			
CONSOLIDATED -----			
-----			
Current			
assets.....	\$		
796,233	\$ 926,084	\$ 21,419	
\$ --	\$ 1,743,736	Property	
		and equipment	
net.....			
2,666	208,107	27,873	--
238,646	Goodwill and other		
	intangible assets, net....		
2,260	4,881,063	86,936	--
4,970,259	Investment in		
	subsidiaries.....		
5,727,463	101,680	--	
(5,829,143)	--	Other	
assets.....			
540,368	2,026,746	13,100	
(1,126,960)	1,453,254	-----	

-----  
 -----  
 -- Total  
 assets..... \$  
 7,068,990 \$ 8,143,680 \$  
 149,328 \$ (6,956,103) \$  
 8,405,895 -----

-----  
 ----- Current  
 liabilities..... \$  
 31,135 \$ 960,666 \$ 47,804 \$  
 -- \$ 1,039,605 Long-term  
 debt, less current  
 portion.....  
 498,515 998 -- -- 499,513  
 Other  
 liabilities.....  
 (337) 313,650 848 --  
 314,161 Minority  
 interest..... --  
 10,313 -- 2,626 12,939  
 Interdivisional  
 equity..... -- 6,858,053  
 100,676 (6,958,729) --  
 Stockholders'  
 equity..... 6,539,677 --  
 -- -- 6,539,677 -----

-----  
 -----  
 Total liabilities and  
 shareholders' equity.....  
 \$ 7,068,990 \$ 8,143,680 \$  
 149,328 \$ (6,956,103) \$  
 8,405,895 -----  
 -----

-----  
 Revenue.....  
 \$ -- \$ 3,565,664 \$ 57,254 \$  
 -- \$ 3,622,918 Operating  
 expenses..... (34,153)  
 (3,029,742) (147,900) --  
 (3,211,795) Interest  
 expense, net..... 4,668  
 (34,365) 189 -- (29,508)  
 Gain on sale of  
 securities.....  
 -- -- -- -- -- Other income  
 (expense),  
 net.....  
 261,200 (15,866) (7,898)  
 (277,831) (40,395)  
 Provision for income  
 taxes.....  
 106,154 (13,413) (1,208)  
 (104,666) (13,133) Minority  
 interest..... --  
 (2,948) (1,979) 14,709  
 9,782 -----

-----  
 ----- Net (loss)  
 income before cumulative  
 effect on accounting  
 change..... \$ 337,869 \$  
 469,330 \$ (101,542) \$  
 (367,788) 337,869  
 Cumulative effect on  
 accounting change.....  
 6,470 6,470 -- (6,470)  
 6,470 -----

-----  
 ----- Net (loss)  
 income..... \$ 344,339  
 \$ 475,800 \$ (101,542) \$  
 (374,258) \$ 344,339 -----  
 -----

-----  
 -----  
 Cash flows from  
 operations.....  
 \$ (24,108) \$ 603,601 \$  
 (77,354) \$ -- \$ 502,139  
 Cash flows used in  
 investing  
 activities.....  
 \$ (7,774) \$ (192,034) \$  
 6,223 \$ -- \$ (193,585) Cash  
 flows from financing

activities.....  
 \$ 743,684 \$ (392,742) \$  
 50,391 \$ -- \$ 401,333  
 Effect of exchange  
 rate..... (417) (1,694) --  
 -- (2,111) Cash at the  
 beginning of the  
 period.....  
 78,079 (22,574) 16,311 --  
 71,816 -----  
 -----  
 - ----- Cash at the  
 end of the  
 period.....  
 \$ 789,464 \$ (5,443) \$  
 (4,429) \$ -- \$ 779,592 ----  
 -----  
 -----  
 ---

USANI LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 21--GUARANTEE OF NOTES (CONTINUED)

As of and for the year ended December 31, 2000

WHOLLY OWNED USANI  
 SUBSIDIARY NON-GUARANTOR  
 LLC LLC GUARANTORS  
 SUBSIDIARIES ELIMINATIONS  
 CONSOLIDATED -----  
 -----  
 -----

Current

assets..... \$  
 80,996 \$ 884,464 \$ 41,018 \$  
 -- \$ 1,006,478 Property and  
 equipment  
 net.....  
 24,203 211,137 16,300 --  
 251,640 Goodwill and other  
 intangible assets, net....  
 -- 4,997,365 102,111 --  
 5,099,476 Investment in  
 subsidiaries.....  
 5,596,407 99,345 --  
 (5,695,752) -- Other  
 assets.....  
 966,855 1,653,553 --  
 (1,005,134) 1,615,274 -----  
 -----

-- Total

assets..... \$  
 6,668,461 \$ 7,845,864 \$  
 159,429 \$ (6,700,886) \$  
 7,972,868 -----  
 -----

----- Current

liabilities..... \$  
 30,517 \$ 873,079 \$ 19,681 \$  
 -- \$ 923,277 Long-term  
 debt, less current  
 portion.....  
 498,213 5,850 -- -- 504,063  
 Other  
 liabilities..... --  
 374,320 26,230 (23,415)  
 377,135 Minority  
 interest..... --  
 15,082 -- 13,580 28,662  
 Interdivisional  
 equity..... -- 6,577,533  
 113,518 (6,691,051) --  
 Stockholders'  
 equity..... 6,139,731 --  
 -- -- 6,139,731 -----  
 -----

-----  
 Total liabilities and  
 shareholders' equity.....  
 \$ 6,668,461 \$ 7,845,864 \$

159,429	\$ (6,700,886)	\$
7,972,868	-----	-----
-----		
-----		
Revenue.....		
\$ --	\$ 3,308,274	\$ 46,518
--	\$ 3,354,792	Operating
expenses.....	(37,368)	
(2,766,943)	(286,207)	--
(3,090,518)	Interest	
expense, net.....	22,208	
(30,531)	-- --	(8,323)
Gain		
on sale of		
securities.....		
-- -- --	Other income	
(expense),		
net.....		
345,037	(5,189)	237
(281,319)	58,766	Provision
for income		
taxes.....		
-- (25,132)	(1,305)	--
(26,437)	Minority	
interest.....	--	
(5,196)	-- 46,793	41,597 --
-----		
-----		
-----	Net (loss)	
income.....	\$ 329,877	
\$ 475,283	\$ (240,757)	\$
(234,526)	\$ 329,877	-----
-----		
-----		
Cash flows from		
operations.....		
\$ (9,402)	\$ 411,291	\$
(41,650)	\$ --	\$ 360,239
Cash flows used in		
investing		
activities.....		
\$ (6,061)	\$ (232,255)	\$
(7,484)	\$ --	\$ (245,800)
Cash flows from financing		
activities.....		
\$ (128,052)	\$ (228,323)	\$
65,078	\$ --	\$ (291,297)
Effect of exchange		
rate.....	-- 1,200	-- --
1,200	Cash at the beginning	
of the		
period.....		
221,594	25,513	367 --
247,474	-----	-----
-----		
--	-----	Cash at the
end of the		
period.....		
\$ 78,079	\$ (22,574)	\$
16,311	\$ --	\$ 71,816
-----		
-----		

1999 is not presented because non-guarantor subsidiaries for these periods were not material.

USA NETWORKS, INC.

BY-LAW AMENDMENT

RESOLVED, that, pursuant to its powers under the Certificate of Incorporation, the Board of Directors hereby amends Article II, Section 6 of the By-Laws so that, as so amended and restated, such Section shall read in its entirety as set forth in EXHIBIT A hereto.

EXHIBIT A

SECTION 6. QUORUM. Except as otherwise required by law, the holders of shares representing a majority of the voting power of the Corporation entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business; PROVIDED, HOWEVER, that if such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. If at such adjourned meeting, a quorum shall be present or represented, any business may be transacted that might have been transacted at the meeting as originally notified. When a quorum is present at any meeting, the vote of the holders of shares representing a majority of the voting power of the Corporation entitled to vote present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the Delaware General Corporate Law or of the Certificate of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question.

By law amendment 1.31.02

[USA NETWORKS INC LOGO]

-----  
GENERAL BY-LAWS  
AMENDED AND RESTATED AS OF  
JANUARY 31, 2002

AMENDED AND RESTATED BY-LAWS  
OF  
USA NETWORKS, INC.

ARTICLE I

OFFICES

SECTION 1. PRINCIPAL OFFICE. The registered office of the Corporation shall be located in the City of Wilmington, County of New Castle, State of Delaware.

SECTION 2. OTHER OFFICES. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

STOCKHOLDERS

SECTION 1. PLACE OF MEETING. Meetings of stockholders may be held at such place, either within or without the State of Delaware, as may be designated by the Board of Directors. If no designation is made, the place of the meeting shall be the principal office of the Corporation.

SECTION 2. ANNUAL MEETING. The annual meeting of the stockholders shall be held at such date and time as may be fixed by resolution of the Board of Directors.

SECTION 3. SPECIAL MEETINGS. Special meetings of the stockholders may be called by the Chairman of the Board or a majority of the Board of Directors.

SECTION 4. NOTICE. Written notice stating the date, time and place of the meeting, and in case of a special meeting, the purpose or purposes thereof, shall be given to each stockholder entitled to vote thereat not less than ten (10) nor more than sixty (60) days prior thereto, either personally or by mail, facsimile or telegraph, addressed to each stockholder at his address as it appears on the records of the Corporation. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be by facsimile, such notice shall be deemed to be delivered when confirmation of receipt is received by the sender. If notice be by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Such further notice shall be given as may be required by law. Meetings may be held without notice if all stockholders entitled to vote are present, or if notice is waived by those not present. Any previously scheduled meeting of the stockholders may be postponed, and (unless the Certificate of Incorporation otherwise provides) any special meeting of the stockholders may be canceled, by resolution of the Board of Directors upon public notice given prior to the date previously scheduled for such meeting of stockholders.

SECTION 5. ADJOURNED MEETINGS. The Chairman of the meeting or a majority of the voting power of the shares so represented may adjourn the meeting from time to time, whether or not there is a quorum. When a meeting is adjourned to another time or place, except as required by law, notice of the adjourned meeting need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken, if the adjournment is for not more than thirty (30) days, and if no new record date is fixed for the adjourned meeting. At the adjourned meeting the Corporation may transact any business that might have been transacted at the original meeting.

SECTION 6. QUORUM. Except as otherwise required by law, the holders of shares representing a majority of the voting power of the Corporation entitled to vote, present in person or

represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business; PROVIDED, HOWEVER, that if such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. If at such adjourned meeting, a quorum shall be present or represented, any business may be transacted that might have been transacted at the meeting as originally notified. When a quorum is present at any meeting, the vote of the holders of shares representing a majority of the voting power of the Corporation entitled to vote present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the Delaware General Corporate Law or of the Certificate of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question.

SECTION 7. VOTING. Each stockholder shall at every meeting of the stockholders be entitled to vote in person or by proxy each share of the class of capital stock having voting power held by such stockholder.

SECTION 8. PROCEDURE FOR ELECTION OF DIRECTORS; REQUIRED VOTE. Election of directors at all meetings of the stockholders at which directors are to be elected shall be by ballot, and, subject to the rights of the holders of shares of Common Stock to elect directors under specified circumstances, a plurality of the votes cast thereat shall elect directors. Except as otherwise provided by law, the Certificate of Incorporation, or these By-Laws, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the matter shall be the act of the stockholders.

SECTION 9. INSPECTORS OF ELECTIONS; OPENING AND CLOSING THE POLLS. The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the Chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging the duties of an inspector, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of the inspector's ability. The inspectors shall have the duties prescribed by law.

The Chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

SECTION 10. ACTION WITHOUT MEETING. Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all of the shares entitled to vote thereon were present and voted, provided that prompt notice of such action shall be given to those stockholders who have not so consented in writing to such action without a meeting

### ARTICLE III

#### DIRECTORS

SECTION 1. NUMBER AND TENURE. The business and affairs of the Corporation shall be managed by the Board of Directors, the number thereof to be determined from time to time by

resolution of the Board of Directors. Each director shall serve for a term of one year from the date of his election and until his successor is elected. Directors need not be stockholders.

SECTION 2. RESIGNATION OR REMOVAL. Any director may at any time resign by delivering to the Board of Directors his resignation in writing, to take effect no later than ten days thereafter. Any director or the entire Board of Directors may at any time be removed effective immediately, with or without cause, by the vote, either in person or represented by proxy, of a majority of the voting power of shares of stock issued and outstanding of the class or classes that elected such director and entitled to vote at a special meeting



held for such purpose or by the written consent of a majority of the voting power of shares of stock issued and outstanding of the class or classes that elected such director.

SECTION 3. VACANCIES. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by the vote of a majority of the remaining directors, though less than a quorum, or a majority of the voting power of shares of stock issued and outstanding and entitled to vote at a special meeting held for such purpose or by the written consent of a majority of the voting power of shares of stock issued and outstanding. The directors so chosen shall hold office until the next annual election and until their respective successors are duly elected.

SECTION 4. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such dates, times and places as may be designated by the Chairman of the Board, and shall be held at least once each year.

SECTION 5. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board or a majority of the directors. The person or persons calling a special meeting of the Board of Directors may fix a place and time within or without the State of Delaware for holding such meeting.

SECTION 6. NOTICE. Notice of any regular meeting or a special meeting shall be given to each director, either orally, by facsimile or by hand delivery, addressed to each director at his address as it appears on the records of the Corporation. If notice be by facsimile, such notice shall be deemed to be adequately delivered when the notice is transmitted at least twenty-four (24) hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least twenty-four (24) hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting in accordance with Article IX of these By-Laws.

SECTION 7. QUORUM. At all meetings of the Board of Directors, a majority of the total number of directors shall constitute a quorum for the transaction of business and, unless otherwise provided in the Certificate of Incorporation or these By-Laws, the act of a majority of the directors present at any meeting at which there is a quorum shall be an act of the Board of Directors. If a quorum is not present at any meeting of the Board of Directors, the directors present may adjourn the meeting from time to time, without notice, until a quorum shall be present. The directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum. A director present at a meeting shall be counted in determining the presence of a quorum, regardless of whether a contract or transaction between the Corporation and any other Corporation, partnership, association, or other reorganization in which such director is a director or officer or has a financial interest, is authorized or considered at such meeting.

SECTION 8. ACTION WITHOUT MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 9. ACTION BY CONFERENCE TELEPHONE. Members of the Board of Directors or any committee thereof may participate in a meeting of such Board of Directors or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

SECTION 10. COMMITTEES. The Board of Directors, by resolution adopted by a majority of the whole Board of Directors, may designate one (1) or more committees, each committee to consist of two (2) or more directors. The Board of Directors may designate one (1) or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in such resolution, shall have and may exercise all of the powers of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all

papers that may require it, except that no committee shall have the power or authority to amend the Certificate of Incorporation, to adopt an agreement of merger or consolidation, to recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, to recommend to the stockholders a dissolution, to amend the By-Laws of the Corporation, to declare a dividend, or to authorize the issuance of stock.

SECTION 11. COMPENSATION OF DIRECTORS. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of committees may be allowed like compensation for attending committee meetings.

#### ARTICLE IV

##### OFFICERS

SECTION 1. NUMBER AND SALARIES. The officers of the Corporation shall consist of a Chief Executive Officer (the "CEO") who shall also be the Chairman of the Board (the "Chairman"), a Secretary, a Treasurer, and such other officers and assistant officers and agents as may be deemed necessary by the Board of Directors. Any two (2) or more offices may be held by the same person.

SECTION 2. ELECTION AND TERM OF OFFICE. The officers of the Corporation shall be elected by the Board of Directors at the first meeting of the Board of Directors following the stockholders' annual meeting, and shall serve for a term of one (1) year and until a successor is elected by the Board of Directors. Unless otherwise provided in the Certificate of Incorporation or these By-Laws, any officer appointed by the Board of Directors may be removed, with or without cause, at any time by the CEO or by the Board of Directors. Each officer shall hold his office until his successor is appointed or until his earlier resignation, removal from office, or death. All officers elected by the Board of Directors shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article IV. Such officers shall also have such powers and duties as from time to time may be conferred by the Board of Directors or by any committee thereof. The Board or any committee thereof may from time to time elect, or the CEO may appoint, such other officers (including a President, one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers, and Assistant Controllers) and such agents, as may be necessary or desirable for the conduct of the business of the Corporation. Such other officers and agents shall have such duties and shall hold their offices for such terms as shall be provided in these By-Laws or as may be prescribed by the Board or such committee or by the CEO, as the case may be.

SECTION 3. THE CHIEF EXECUTIVE OFFICER. The CEO shall be elected by the Board of Directors from their own number and shall be the Chairman of the Board and shall preside at all meetings of the stockholders and of the Board of Directors. The CEO shall be responsible for the general management of the affairs of the Corporation and shall perform all duties incidental to his

office. The CEO shall be empowered to sign all certificates, contracts and other instruments of the Corporation, and to do all acts that are authorized by the Board of Directors, and shall, in general, have such other duties and responsibilities as are assigned consistent with the authority of a Chief Executive Officer and Chairman of the Board of a corporation.

SECTION 4. THE PRESIDENT. The Board of Directors or the CEO may elect a President to have such duties and responsibilities as from time to time may be assigned to him by the CEO or the Board of Directors. The President shall be empowered to sign all certificates, contracts and other instruments of the corporation, and to do all acts which are authorized by the CEO or the Board of Directors, and shall, in general, have such other duties and responsibilities as are assigned consistent with the authority of a President of a corporation.

SECTION 5. VICE PRESIDENTS. The Board of Directors or the CEO may from time to time name one or more Vice Presidents that may include the designation of Executive Vice Presidents and Senior Vice Presidents all of whom shall perform such duties as from time to time may be assigned to him by the CEO or the Board of Directors.

SECTION 6. THE SECRETARY. The Secretary shall keep the minutes of the proceedings of the stockholders and the Board of Directors; the Secretary shall give, or cause to be given, all notices in accordance with the provisions of

these By-Laws or as required by law, shall be custodian of the corporate records and of the seal of the Corporation, and, in general, shall perform such other duties as may from time to time be assigned by the CEO or the Board of Directors.

SECTION 7. TREASURER. The Treasurer or, if one is designated by the Board of Directors, the Chief Financial Officer of the Corporation, shall act as the chief financial officer of the Corporation, shall have the custody of the corporate funds and securities, shall keep, or cause to be kept, correct and complete books and records of account, including full and accurate accounts of receipts and disbursements in books belonging to the Corporation, shall deposit all monies and other

valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors, and in general shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the CEO or the Board of Directors.

SECTION 8. ASSISTANT SECRETARIES. The Assistant Secretaries, if any, in general shall perform such duties as from time to time may be assigned to them by the Secretary or by the Board of Directors, and shall in the absence or incapacity of the Secretary, perform his functions.

SECTION 9. ASSISTANT TREASURERS. The Assistant Treasurers, if any, in general shall perform such duties as from time to time may be assigned to them by the Treasurer or by the Board of Directors, and shall in the absence or incapacity of the Treasurer perform his functions.

#### ARTICLE V

##### CERTIFICATES OF STOCK

SECTION 1. SIGNATURE BY OFFICERS. Every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the CEO, the Chairman or President, if any (or any Vice President), and the Secretary (or an Assistant Secretary) of the Corporation, certifying the number of shares owned by the stockholder in the Corporation.

SECTION 2. FACSIMILE SIGNATURES. The signature of the CEO, Chairman, President, Vice President, Treasurer or Assistant Treasurer, Secretary or Assistant Secretary may be a facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or

certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the Corporation.

SECTION 3. LOST CERTIFICATES. The Board of Directors may direct a new certificate(s) to be issued by the Corporation to replace any certificate(s) alleged to have been lost or destroyed, upon its receipt of an affidavit of that fact by the person claiming the certificate(s) of stock to be lost or destroyed. When authorizing such issue of a new certificate(s), the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate(s), or such owner's legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate(s) alleged to have been lost or destroyed.

SECTION 4. TRANSFER OF STOCK. Upon surrender to the Corporation or its transfer agent of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

SECTION 5. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. The Board of Directors may close the stock transfer books of the Corporation for a period of not more than sixty (60) nor less than ten (10) days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect or for a period of not more than

sixty (60) nor less than ten (10) days in connection with obtaining the consent of stockholders for any purpose. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date of not more than sixty (60) nor less than ten (10) days preceding the date of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof, or

entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any change, conversion or exchange of capital stock, or to give such consent. In such case and notwithstanding any transfer of any stock on the books of the Corporation after any such record date, such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, or to give such consent, as the case may be.

SECTION 6. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner. Except as otherwise provided by law, the Corporation shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person whether or not it shall have express or other notice thereof.

#### ARTICLE VI

##### CONTRACT, LOANS, CHECKS, AND DEPOSITS

SECTION 1. CONTRACTS. When the execution of any contract or other instrument has been authorized by the Board of Directors without specification of the executing officers, the CEO, the President, any Vice President, the Treasurer or Assistant Treasurer and the Secretary, or any Assistant Secretary, may execute the same in the name of and on behalf of the Corporation and may affix the corporate seal thereto.

SECTION 2. LOANS. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors.

SECTION 3. CHECKS. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

SECTION 4. ACCOUNTS. Bank accounts of the Corporation shall be opened, and deposits made thereto, by such officers or other persons as the Board of Directors may from time to time designate.

#### ARTICLE VII

##### DIVIDENDS

SECTION 1. DECLARATION OF DIVIDENDS. Subject to the provisions, if any, of the Certificate of Incorporation, dividends upon the capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or contractual rights, or in shares of the Corporation's capital stock.

SECTION 2. RESERVES. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interests of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

#### ARTICLE VIII

##### FISCAL YEAR

The fiscal year of the Corporation shall be established by the Board of Directors.

## ARTICLE IX

### WAIVER OF NOTICE

Whenever any notice whatever is required to be given by law, the Certificate of Incorporation or these By-Laws, a written waiver thereof, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting.

## ARTICLE X

### SEAL

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization, and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

## ARTICLE XI

### AMENDMENTS

Except as expressly provided otherwise by the Delaware General Corporation Law, the Certificate of Incorporation, or other provisions of these By-Laws, these By-Laws may be altered, amended or repealed and new By-Laws adopted at any regular or special meeting of the Board of Directors by an affirmative vote of a majority of all directors.

## ARTICLE XII

### INDEMNIFICATION AND INSURANCE

SECTION 1. INDEMNIFICATION. The Corporation shall, to the fullest extent authorized by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), indemnify and hold harmless any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, investigation or proceeding, whether civil, criminal or administrative (other than an action by or in the right of the Corporation) by reason of the fact that he or a person of whom he is the legal representative is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer or employee of another Corporation, partnership, joint venture, trust, employee benefit plan or other enterprise (whether the basis of such proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving as a director or officer) against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by him in connection therewith; PROVIDED, HOWEVER, that except as provided in this By-Law, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors. The right to indemnification conferred in this By-Law shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the Corporation within 20 days after the receipt by the Corporation of a statement or statements from the claimant requesting such advance or advances from time to time; PROVIDED, HOWEVER, that if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in his capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking by or on behalf of such director or officer, to

repay all amounts so advanced if it shall ultimately be determined that such

director or officer is not entitled to be indemnified under this By-Law or otherwise.

To obtain indemnification under this By-Law, a claimant shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and is reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Any indemnification (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct. Upon written request by a claimant for indemnification pursuant to the preceding sentence, a determination, if required by applicable law, with respect to a claimant's entitlement thereto shall be made as follows: (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit, investigation or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders of the company. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 10 days after such determination.

If a claim under this By-Law is not paid in full by the Corporation within 20 days after a written claim pursuant to this By-Law has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standard of conduct which makes it permissible under the General Corporation Law of the State of Delaware for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Corporation (including its Board of Directors or stockholders) that the

claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

If a determination shall have been made pursuant to this By-Law that the claimant is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to this By-Law. Furthermore, the Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to this By-Law that the procedures and presumptions of this By-Law are not valid, binding and enforceable and shall stipulate in such proceeding that the Corporation is bound by all the provisions of this By-Law.

The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this By-Law shall not be exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-Law, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification shall be made to the fullest extent permitted by law. No repeal or modification of this By-Law shall in any way diminish or adversely affect the rights of any director or officer of the Corporation (or employee or agent of the Corporation to which rights to indemnification have been granted) hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

The indemnification and advancement of expenses shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and rights to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent of the Corporation to the fullest extent of the provisions of this By-Law with respect to the indemnification and advancement of expenses of directors and officers of the

Corporation.

If any provision or provisions of this By-Law shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining

provisions of this By-Law (including, without limitation, each portion of any paragraph of this By-Law containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this By-Law (including, without limitation, each such portion of any paragraph of this By-Law containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Any notice, request or other communication required or permitted to be given to the Corporation under this By-Law shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, postage prepaid, return receipt requested, to the Secretary of the Corporation and shall be effective only upon receipt by the Secretary.

SECTION 2. INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or will be a director, officer, employee or agent of the Corporation, or is or will be a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware. To the extent that the Corporation maintains any policy or policies providing such insurance, each such director or officer, and each such agent or employee to which rights to indemnification have been granted, shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage thereunder for any such director, officer, employee or agent.

## CERTIFICATE OF DESIGNATIONS

of

## SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK

of

USA NETWORKS, INC.

(Pursuant to Section 151 of the  
Delaware General Corporation Law)

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USA Networks, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (hereinafter called the "Corporation"), hereby certifies that the following resolution was adopted by the unanimous consent of the Board of Directors of the Corporation as required by Section 151 of the General Corporation Law on November 30, 2001.

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of this Corporation in accordance with the provisions of the Amended Certificate of Incorporation of the Corporation, a series of Convertible Preferred Stock, par value \$.01 per share, of the Corporation, be and hereby is created, and that the number of shares thereof and the voting powers, designations, preferences, limitations, restrictions, relative rights and distinguishing designation of the shares of such series are as follows:

SECTION 1. DESIGNATION AND AMOUNT. The designation of such series of Preferred Stock authorized by this resolution shall be the Series A Cumulative Convertible Preferred Stock (the "CONVERTIBLE PREFERRED STOCK"). The number of shares of Convertible Preferred Stock shall be 13,125,000. The face value of the Convertible Preferred Stock shall be \$50.00 (the "FACE VALUE").

SECTION 2. RANK AND TERM. All shares of Convertible Preferred Stock shall rank prior, both as to payment of dividends and as to distributions of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, to all of the now or hereafter issued classes of common stock, \$0.01 par value per share, of the Corporation (the "COMMON STOCK"). No other preferred stock of the Corporation shall rank senior to the Convertible Preferred Stock with respect to payment upon liquidation or payment of dividends without the consent of the holders of record of the Convertible Preferred Stock (the "HOLDERS") representing a majority of the Convertible Preferred Stock then outstanding. At the close of business on February 4, 2022 (the "EXPIRATION DATE"), without any further action on the part of the Corporation or any Holder, but subject to payment of all accrued and unpaid dividends on the Convertible Preferred Stock, all then outstanding shares of Convertible Preferred Stock shall automatically be

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converted to common stock in conformance with the provisions of Section 6 and no shares of Convertible Preferred Stock shall thereafter be issued or outstanding.

SECTION 3. DIVIDENDS. The Holders shall be entitled to receive, whether or not dividends are declared by the Board out of funds at the time legally available therefor, annual dividends in the amount of (a) 1.99% of the Face Value per annum per share of Convertible Preferred Stock, plus (b) the excess, if any, of the value of any dividends paid with respect to the number of shares of Common Stock into which each outstanding share of the Convertible Preferred Stock is then convertible over the amount described in clause (a), and no more. Dividends on the Convertible Preferred Stock shall be fully cumulative, shall accrue without interest from the date of first issuance, and shall be payable quarterly in arrears on February 15, May 15, August 15 and November 15 (each, a "DIVIDEND DATE") of each year (except that if any such date is a Saturday, Sunday or Legal Holiday, then such dividend shall be payable on the next succeeding day that is not a Saturday, Sunday or Legal Holiday) to holders of record as they appear on the stock transfer books of the Corporation on the close of business on the fifth Business Day prior to such Dividend Date. All dividends on the Convertible Preferred Stock are payable, at the Corporation's option, in cash, shares of Common Stock or any combination thereof, with the Common Stock valued at the Market Price (as defined below) as of the applicable Dividend Date. For purposes hereof, the term "LEGAL HOLIDAY" shall mean any day on which banking institutions are authorized to close in New York, New York. Dividends on account of arrears for any past dividend period may be declared and paid at any time, without reference to any regular dividend payment date. The amount of dividends payable per share of Convertible Preferred Stock with respect to the amounts determined pursuant to clause (a) of this paragraph for each quarterly dividend period shall be computed by dividing the annual amount determined pursuant to such clause (a) by four. The amount of dividends payable



for the initial dividend period and any period shorter than a full quarterly dividend period shall be computed on the basis of the number of days actually elapsed of a 360-day year, provided that in no event shall the dividend amount for any period shorter than a full quarterly dividend period be greater than the full quarterly dividend amount.

If the Corporation elects to pay all or any portion of a dividend in shares of Common Stock, the number of shares of Common Stock to be delivered by the Corporation for each share of Convertible Preferred Stock held by a Holder shall equal (x) the cash value of the dividend (or portion of a dividend) to be paid with Common Stock divided by (y) the Market Price. The "MARKET PRICE" shall be equal to the average of the daily Closing Prices (as defined below) of the Common Stock for the 10 consecutive Trading Days (as defined below) ending on the second Trading Day immediately preceding the applicable Dividend Date (or other date with respect to which the Market Price is to be determined). The "CLOSING PRICE" for each Trading Day shall be the last reported sales price regular way, during regular trading hours, or, in case no such reported sales takes place on such day, the average of the closing bid and asked prices regular way, during regular trading hours, for such day, in each case on The Nasdaq Stock Market or, if not listed or quoted on such market, on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if not listed or admitted to trading on a national securities exchange, the last sale price regular way for

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the Common Stock as published by the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), or if such last sale price is not so published by NASDAQ or if no such sale takes place on such day, the mean between the closing bid and asked prices for the Common Stock as published by NASDAQ. If the shares of Common Stock are not listed or admitted to trading on a national securities exchange or quoted by NASDAQ, the Market Price shall be determined in good faith by the Board of Directors of the Corporation or, if such determination cannot be made, by a nationally recognized independent investment banking firm selected in good faith by the Board of Directors of the Corporation. "TRADING DAY" shall mean a day on which the securities exchange utilized for the purpose of calculating the Market Price shall be open for business or, if the shares of Common Stock shall not be listed on such exchange for such period, a day with respect to which quotations of the character referred to in the next preceding sentence shall be reported. In lieu of any fractional share of Common Stock which would otherwise be issued in payment for a dividend on Convertible Preferred Stock, the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount in cash (computed to the nearest cent) equal to the Market Price multiplied by the fractional interest that otherwise would have been deliverable as a dividend on such Convertible Preferred Stock.

On each Dividend Date all dividends which shall have accrued on each share of Convertible Preferred Stock outstanding on such Dividend Date shall accumulate and be deemed to become "due" whether or not there shall be funds legally available for the payment thereof. Any dividend which shall not be paid on the Dividend Date on which it shall become due shall be deemed to be "past due" until such dividend shall be paid or until the share of Convertible Preferred Stock with respect to which such dividend became due shall no longer be outstanding, whichever is the earlier to occur. No interest, sum of money in lieu of interest, or other property or securities shall be payable in respect of any dividend payment or payments which are past due. Dividends paid on shares of Convertible Preferred Stock in an amount less than the total amount of such dividends at the time accumulated and payable on such shares shall be allocated PRO RATA on a share-by-share basis among all such shares at the time outstanding.

No dividends shall be paid or declared and set apart for payment on the Corporation's Common Stock or on any class or series of the Corporation's capital stock ranking, as to dividends, on a parity with the Convertible Preferred Stock (the "PARITY DIVIDEND STOCK") for any period unless full cumulative dividends have been, or contemporaneously are, paid or declared and set apart for such payment on the Convertible Preferred Stock for all dividend payment periods terminating on or prior to the date of payment of such full cumulative dividends. No dividends shall be paid or declared and set apart for payment on the Convertible Preferred Stock for any period unless cumulative dividends have been, or contemporaneously are, paid or declared and set apart for payment on the Parity Dividend Stock for all dividend periods terminating on or prior to the date of payment of such full cumulative dividends. When dividends are not paid in full upon the Convertible Preferred Stock and the Parity Dividend Stock, all dividends paid or declared and set aside for payment upon shares of Convertible Preferred Stock and the Parity Dividend Stock shall be paid or declared and set aside for payment PRO RATA so that the amount of dividends paid or declared and set aside for payment per share on the

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Convertible Preferred Stock and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on

the shares of Convertible Preferred Stock and the Parity Dividend Stock bear to each other.

SECTION 4. LIQUIDATION PREFERENCE. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the Holders shall be entitled to receive out of the assets of the Corporation, whether such assets are stated capital or surplus of any nature, an amount equal to the dividends accrued and unpaid thereon to the date of final distribution to such Holders, whether or not declared, without interest, plus a sum per share of Convertible Preferred Stock equal to the greater of (a) \$50.00 and (b) the liquidating distribution that would be paid with respect to the number of shares of Common Stock into which a share of Convertible Preferred Stock is then convertible, and no more. Such final distribution on the shares of the Convertible Preferred Stock shall be made before any payment is made or assets are distributed to the holders of Common Stock or any other class or series of the Corporation's capital stock ranking junior as to liquidation rights to the Convertible Preferred Stock (the "JUNIOR LIQUIDATION STOCK"). In the event the assets of the Corporation available for distribution to stockholders upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full the amounts payable with respect to the Convertible Preferred Stock and any other class or series of the Corporation's capital stock which may hereafter be created having parity as to liquidation rights with the Convertible Preferred Stock (the "PARITY LIQUIDATION STOCK"), the Holders and the holders of the Parity Liquidation Stock shall share ratably in any distribution of assets of the Corporation in proportion to the full respective preferential amounts to which they are entitled (but only to the extent of such preferential amounts). After payment in full of the liquidation preferences of the shares of Convertible Preferred Stock, the Holders shall not be entitled to any further participation in any distribution of assets by the Corporation by virtue of their ownership of the Convertible Preferred Stock. Except as set forth in Section 6(i), neither a consolidation, merger or other business combination of the Corporation with or into another corporation or other entity nor a sale or transfer of all or part of the Corporation's assets for cash, securities or other property or any combination thereof shall be considered a liquidation, dissolution or winding up of the Corporation for purposes of this Section 4 (unless in connection therewith the liquidation of the Corporation is specifically approved).

A Holder shall not be entitled to receive any payment owed for such shares under this Section 4 until such Holder shall cause to be delivered to the Corporation (i) the certificate(s) representing such shares of Convertible Preferred Stock (or, in the event such certificate(s) have been lost or destroyed, an affidavit of the Holder of loss or destruction reasonably satisfactory to the Corporation as well as other support as reasonably requested by the Corporation) and (ii) transfer instrument(s) reasonably satisfactory to the Corporation and sufficient to transfer such shares of Convertible Preferred Stock to the Corporation free of any adverse interest. No interest shall accrue on any payment upon liquidation after the due date thereof.

SECTION 5. REDEMPTION. (a) REDEMPTION AT THE OPTION OF THE CORPORATION. Commencing on the tenth anniversary of the Effective Time (for the purposes

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hereof, the "EFFECTIVE TIME" shall be February 4, 2002), the Corporation, at its option, may from time to time redeem all or a portion of (but if a portion, shares representing at least 25% of the originally issued aggregate Face Value, unless there shall remain outstanding less than 25% of such amount, in which case all outstanding shares may be redeemed) of the outstanding Convertible Preferred Stock at a redemption price equal to the Face Value plus all dividends on the Convertible Preferred Stock being redeemed that are accrued and unpaid thereon, whether or not declared or due, to the date fixed for redemption (the "REDEMPTION DATE"), such sum being hereinafter referred to as the "REDEMPTION PRICE". The Redemption Price may be paid in cash, shares of Common Stock or a combination thereof, at the option of the Corporation.

If the Corporation elects to pay the Redemption Price in Common Stock, the number of shares of Common Stock to be paid per share of Convertible Preferred Stock being redeemed shall equal (x) the then-current Redemption Price of the Convertible Preferred Stock (or portion thereof to be paid in shares of Common Stock), divided by (y) the Market Price as of the date of the notice for redemption described below.

In case of the redemption pursuant to this Section 5(a) of less than all of the then outstanding Convertible Preferred Stock, the shares of Convertible Preferred Stock to be redeemed shall be redeemed PRO RATA or by lot or in such other manner as the Board of Directors may determine.

Not more than 60 nor less than 20 days prior to the Redemption Date, notice by first class mail, postage prepaid, shall be given to each Holder of Convertible Preferred Stock to be redeemed, at such Holder's address as it shall appear upon the stock transfer books of the Corporation. Each such notice of redemption shall specify the Redemption Date, the Redemption Price, the place or places of payment, that payment will be made upon presentation and surrender of

the certificate(s) evidencing the shares of Convertible Preferred Stock to be redeemed, that on and after the Redemption Date, dividends will cease to accrue on such shares of Convertible Preferred Stock to be redeemed, the then effective conversion price pursuant to Section 6 and that the right of holders to convert such shares of Convertible Preferred Stock to be redeemed shall terminate at the close of business on the Redemption Date (unless the Corporation defaults in the payment of the Redemption Price).

Any notice that is mailed as provided in Section 13 shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice; and failure to give such notice by mail, or any defect in such notice, to the Holders of any shares designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Convertible Preferred Stock. On or after the Redemption Date as stated in such notice, each Holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the Redemption Price as herein provided. If less than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. If, on the Redemption Date, shares of Common Stock and/or funds, as the case may be, necessary for the redemption shall be available therefor and shall have been irrecoverably deposited or set aside, then, notwithstanding that the certificates evidencing any shares so

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called for redemption shall not have been surrendered the dividends with respect to the shares so called shall cease to accrue after the Redemption Date, the shares shall no longer be deemed outstanding, the Holders thereof shall cease to be Holders, and all rights whatsoever with respect to the shares so called for redemption (except the right of the Holders to receive payment of the Redemption Price as herein provided without interest upon surrender of their certificates therefor) shall terminate. At the close of business on the Redemption Date, each Holder of Convertible Preferred Stock so redeemed (unless the Corporation defaults on its obligations to deliver shares of Common Stock or cash) shall be, without any further action, to the extent the Corporation elected to pay the Redemption Price in shares of Common Stock, deemed a holder of the number of shares, if any, of Common Stock for which such Convertible Preferred Stock is redeemable, and, to the extent the Corporation elected to pay the Redemption Price in cash, entitled to receive payment of the Redemption Price in cash, without interest.

The shares of Convertible Preferred Stock shall not be subject to the operation of any purchase, retirement, mandatory redemption (except as specified in this Section) or sinking fund.

The Holder of any shares of Convertible Preferred Stock redeemed upon any exercise of the Corporation's redemption right shall not be entitled to receive payment of the Redemption Price for such shares until such Holder shall cause to be delivered to the place specified in the notice given with respect to such redemption (i) the certificate(s) representing such shares of Convertible Preferred Stock redeemed (or, in the event such certificate(s) have been lost or destroyed, an affidavit of the Holder of loss or destruction reasonably satisfactory to the Corporation as well as other support as reasonably requested by the Corporation) and (ii) transfer instrument(s) reasonably satisfactory to the Corporation and sufficient to transfer such shares of Convertible Preferred Stock to the Corporation free of any adverse interest. No interest shall accrue on the Redemption Price of any share of Convertible Preferred Stock after its Redemption Date provided that the shares of Common Stock and/or funds sufficient for the redemption shall have been made available therefor and shall have been irrecoverably deposited or set aside.

In the event that, prior to a Redemption Date, any shares of Convertible Preferred Stock shall be converted into Common Stock pursuant to Section 6, then (i) the Corporation shall not have the right to redeem such shares and (ii) shares of Common Stock and any funds which shall have been deposited for the payment of the Redemption Price for such shares of Convertible Preferred Stock shall be returned to the Corporation immediately after such conversion (subject to declared dividends payable to Holders on the record date for such dividends being so payable, to the extent set forth in Section 6 hereof, regardless of whether such shares are converted subsequent to such record date and prior to the related dividend payment date).

(b) REDEMPTION AT THE OPTION OF THE HOLDER. During the 20 Trading Day period preceding each of the fifth, seventh, tenth and fifteenth anniversaries of the Effective Time (each such period, a "HOLDER'S REDEMPTION PERIOD"), a Holder may elect to cause the Corporation to redeem all or any of the shares of Convertible Preferred Stock held by such Holder. The Corporation shall redeem each such share for the Face Value,

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plus all accrued and unpaid dividends whether or not declared through the applicable anniversary (the "HOLDER'S REDEMPTION CONSIDERATION"), for cash,

shares of Common Stock or a combination thereof, at the Corporation's option.

For any shares of Convertible Preferred Stock that the Corporation elects to redeem for Common Stock, the amount of Common Stock to be paid per share of Convertible Preferred Stock so redeemed shall equal (x) the Holder's Redemption Consideration (or portion thereof to be paid in shares of Common Stock), divided by (y) the Market Price as of the applicable anniversary date.

A Holder electing to redeem one or more shares of Convertible Preferred Stock shall provide notice in accordance with Section 13 to the transfer agent designated by the Corporation for such purpose or, if there be none, to the principal business offices of the Corporation (the "HOLDER'S NOTICE"), postmarked (if not hand delivered) or received by the transfer agent or principal business offices of the Corporation, as applicable (if hand delivered), on a date within the applicable Holder's Redemption Period. Any Holder's Notice that is mailed as herein provided, and includes the documentation described in the next succeeding paragraph, shall be conclusively presumed to have been duly given, and the shares of Convertible Preferred Stock shall be deemed to be subject to redemption by the Corporation on the applicable anniversary upon receipt of such notice by the Corporation.

A Holder shall include with the Holder's Notice (i) the certificate(s) representing such shares of Convertible Preferred Stock redeemed (or, in the event such certificate(s) have been lost or destroyed, an affidavit of the Holder of loss or destruction reasonably satisfactory to the Corporation as well as other support as reasonably requested by the Corporation) and (ii) transfer instrument(s) reasonably satisfactory to the Corporation and sufficient to transfer such shares of Convertible Preferred Stock to the Corporation free of any adverse interest. No interest shall accrue on the Holder's Redemption Consideration for any share of Convertible Preferred Stock after its redemption date.

If less than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. If, on or after the date the Corporation receives the Holder's Notice, shares of Common Stock and/or funds necessary for the redemption shall have been made available therefor and shall have been irrecoverably deposited or set aside, then the dividends with respect to the shares to be so redeemed shall cease to accrue after the date fixed for redemption, the shares shall no longer be deemed outstanding, the Holders thereof shall cease to be Holders of Convertible Preferred Stock, and all rights whatsoever with respect to the shares so requested to be redeemed (except the right of the Holders to receive payment of the redemption price as herein provided without interest upon surrender of their certificates therefor) shall terminate.

SECTION 6. CONVERSION. (a) RIGHT OF CONVERSION/AUTOMATIC CONVERSION. Subject to and upon compliance with the provisions of this Section 6, each share of

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Convertible Preferred Stock shall, at the option of the Holder, be convertible at any time (unless such share is called for redemption, then to and including but not after the close of business on the date fixed for such redemption, unless the Corporation shall default in payment due upon redemption thereof), into that number of fully paid and non-assessable shares of Common Stock (calculated as to each conversion to the nearest 1/100th of a share) equal to the quotient obtained by dividing \$50.00 by the Conversion Price (as defined in Section 6(d)) in effect at such time and by surrender of such share so to be converted in the manner provided in Section 6(b).

Each share of Convertible Preferred Stock shall automatically be converted into that number of fully paid and non-assessable shares of Common Stock (calculated as to each conversion to the nearest 1/100th of a share) equal to the quotient obtained by dividing \$50.00 by the Conversion Price in effect as of the Expiration Date.

(b) MANNER OF EXERCISE OF CONVERSION. In order to exercise the conversion privilege (or, in the case of an automatic conversion, receive the Common Stock into which the shares of Convertible Preferred Stock have been converted), the Holder of one or more shares of Convertible Preferred Stock to be converted (or that have been converted, in the case of an automatic conversion) shall surrender the certificate(s) representing such shares (or, in the event such certificate(s) have been lost or destroyed, an affidavit of the Holder of loss or destruction reasonably satisfactory to the Corporation as well as other support as reasonably requested by the Corporation) to the transfer agent designated by the Corporation for such purpose or, if there be none, to the principal business offices of the Corporation, accompanied by the funds, if any, required by the last paragraph of this Section 6(b) and shall give written notice of conversion in compliance with Section 13 in the form provided on such shares of Convertible Preferred Stock (or such other notice as is acceptable to the Corporation) to the Corporation at such office or agency that the Holder elects to convert the shares of Convertible Preferred Stock specified in said notice. Such notice shall also state the name or names, together with address or

addresses, in which the certificate or certificates for shares of Common Stock which shall be issuable in such conversion shall be issued. Each share of Convertible Preferred Stock surrendered for conversion shall, unless the shares issuable on conversion are to be issued in the same name as the name in which such share is registered, be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the Holder or his duly authorized attorney and an amount sufficient to pay any transfer or similar tax. As promptly as practicable after the surrender of such shares of Convertible Preferred Stock and the receipt of such notice, instruments of transfer and funds, if any, as aforesaid, the Corporation shall issue and shall deliver at such office or agency to such Holder, or on his written order, a certificate or certificates for the number of full shares of Common Stock issuable upon the conversion of such share of Convertible Preferred Stock in accordance with the provisions of this Section 6 and a check or cash in respect of any fractional interest in a share of Common Stock arising upon such conversion, as provided in Section 6(c).

Each conversion, other than an automatic conversion, shall be deemed to have been effected immediately prior to the close of business on the date on which such shares of Convertible Preferred Stock shall have been surrendered and such notice (and

any applicable instruments of transfer and any required taxes) is deemed received by the Corporation as aforesaid (such date, the "CONVERSION DATE"). In the case of an automatic conversion, the Expiration Date shall be the Conversion Date. The person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon a conversion, including an automatic conversion, shall be deemed to have become the holder or holders of record of the shares represented thereby at the close of business on the Conversion Date, and such conversion shall be at the Conversion Price in effect at such time on such date, unless the stock transfer books of the Corporation shall be closed on that date, in which event such person or persons shall be deemed to have become such holder or holders of record at the close of business on the next succeeding day on which such stock transfer books are open, but such conversion shall be at the Conversion Price in effect on the date upon which such shares of Convertible Preferred Stock shall have been surrendered and such notice received by the Corporation.

(c) CASH PAYMENTS IN LIEU OF FRACTIONAL SHARES. No fractional shares or scrip representing fractions of shares of Common Stock shall be issued upon conversion of Convertible Preferred Stock. If more than one share of Convertible Preferred Stock shall be surrendered for conversion at one time by the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate of \$50.00 for each such share so surrendered. In lieu of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of any share of Convertible Preferred Stock, the Corporation shall pay to the Holder of such shares an amount in cash (computed to the nearest cent) equal to the Closing Price on the Conversion Date (or the next Trading Day if such date is not a Trading Day) multiplied by the fractional interest that otherwise would have been deliverable upon conversion of such share.

(d) CONVERSION PRICE. The "CONVERSION PRICE" shall mean and be \$33.75, subject to adjustment by the Corporation on the applicable Conversion Date as set forth in Section 6(e) below, and subject to adjustment by the Corporation from time to time as set forth in Section 6(f), below.

(e) MARKET PRICE ADJUSTMENT TO CONVERSION PRICE. Solely with respect to shares of Convertible Preferred Stock being converted on an applicable Conversion Date:

(i) If and only if the Market Price on the applicable Conversion Date exceeds \$35.10 (as such amount may be adjusted pursuant to Section 6(f)(v), the "TRIGGER PRICE"), the Conversion Price with respect to the shares of Convertible Preferred Stock being converted on such Conversion Date shall be adjusted as set forth in Section 6(e)(ii) (such adjustment, the "MARKET PRICE ADJUSTMENT").

(ii) If the Market Price Adjustment is applicable pursuant to Section 6(e)(i) above, the Conversion Price on the applicable Conversion Date shall be calculated as follows:

$$\text{Revised Conversion Price} = \frac{(\$50 \times \text{Market Price}) + D}{[(\text{Market Price} \times A) + \{B \times (\text{Market Price} - C)\}] \times 33.75}$$

where:

A = 1.4815

B = 0.4792  
C = Trigger Price  
D = Conversion Price in effect after giving effect to any adjustments described in Section 6(f) and without giving effect to this Section 6(e).

Any adjustment to the Conversion Price pursuant to this Section 6(e)(ii) shall not require any adjustment to the Trigger Price pursuant to Section 6(f) below.

(f) OTHER ADJUSTMENTS.

(i) In case the Corporation shall (A) pay a dividend or make a distribution on its Common Stock in shares of Common Stock, (B) subdivide its outstanding shares of Common Stock into a greater number of shares, (C) combine its outstanding shares of Common Stock into a smaller number of shares, or (D) issue by reclassification, recapitalization or reorganization of its Common Stock (other than a reorganization in which the provisions of Section 6(i) apply) any shares of capital stock of the Corporation, then in each such case the Conversion Price in effect immediately prior to such action shall be equitably adjusted so that the Holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock or other capital stock of the Corporation which such Holder would have owned or been entitled to receive immediately following such action had such share been converted immediately prior to the occurrence of such event. An adjustment made pursuant to this subsection (f)(i) shall become effective immediately after the record date, in the case of a dividend or distribution, or immediately after the effective date, in the case of a subdivision, combination, reclassification, recapitalization or reorganization. If, as a result of an adjustment made pursuant to this subsection (f)(i), the Holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other capital stock of the Corporation, the Board of Directors in the exercise of its good faith judgment (whose determination shall be described in a statement filed by the Corporation with the stock transfer or conversion agent, as appropriate) shall determine the allocation of the adjusted Conversion Price between or among shares of such classes of capital stock or shares of Common Stock and other capital stock.

(ii) In case the Corporation shall issue options, rights or warrants to holders of its outstanding shares of Common Stock entitling them (for a period expiring within 45 days after the date mentioned below) to subscribe for or purchase shares of Common Stock or other securities convertible or exchangeable for shares of Common Stock at a price per share less than the Current Market Price (as determined pursuant to subsection (iv) of this Section 6(f)) (other than

pursuant to any stock option, restricted stock or other incentive or benefit plan or stock ownership or purchase plan for the benefit of employees, directors or officers or any dividend reinvestment plan of the Corporation in effect at the time hereof or any other similar plan adopted or implemented hereafter, it being agreed that none of the adjustments set forth in this Section 6(f) shall apply to the issuance of stock, options, rights, warrants or other property pursuant to any stock option, restricted stock or other incentive or benefit plan or stock ownership or purchase plan for the benefit of employees, directors or officers or any dividend reinvestment plan for the Corporation in effect at the time hereof or any other similar plan adopted or implemented hereafter), then the Conversion Price in effect immediately prior thereto shall be adjusted so that it shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date of issuance of such rights or warrants by a fraction of which the numerator shall be the number of shares of Common Stock outstanding on the date of issuance of such rights or warrants (immediately prior to such issuance) plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such Current Market Price, and of which the denominator shall be the number of shares of Common Stock outstanding on the date of issuance of such rights or warrants (immediately prior to such issuance) plus the number of additional shares of Common Stock offered for subscription or purchase. Such adjustment shall be made successively whenever any rights or warrants are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants; PROVIDED, HOWEVER, in the event that all the shares of Common Stock offered for subscription or purchase are not delivered upon the exercise of such rights or warrants, upon the expiration of such rights or warrants the Conversion Price shall be readjusted to the Conversion Price which would have been in effect had the numerator and the denominator of the foregoing fraction and the resulting adjustment been made based upon the number of shares of Common Stock actually delivered upon the exercise of such rights or warrants rather than upon the number of shares of Common Stock offered for subscription or purchase. In determining whether any

security covered by this Section 6(f)(ii) entitles the holder thereof to subscribe for or purchase shares of Common Stock at less than such Current Market Price, and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received by the Corporation for such rights, warrants or convertible or exchangeable securities, plus the aggregate amount of additional consideration (as set forth in the instruments relating thereto) to be received by the Corporation upon the exercise, conversion or exchange of such securities, the value of such consideration, if other than cash, to be determined by the Board of Directors in the exercise of its good faith judgment (whose determination shall be described in a statement filed by the Corporation with the stock transfer or conversion agent, as appropriate).

(iii) In case the Corporation shall, by dividend or otherwise, distribute to holders of its outstanding Common Stock that is not also distributed to holders of its Convertible Preferred Stock on an as-converted basis as of the record date for the determination of stockholders entitled to receive such distribution,

evidences of its indebtedness or assets (including securities and cash, but excluding any regular periodic cash dividend of the Corporation and dividends or distributions payable in stock for which adjustment is made pursuant to subsection (i) of this Section 6(f)) or options, rights or warrants to subscribe for or purchase securities of the Corporation (excluding those referred to in subsection (ii) of this Section 6(f)), then in each such case the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the record date of such distribution by a fraction of which the numerator shall be the Current Market Price as of the Time of Determination less the fair market value on such record date (as determined by the Board of Directors in the exercise of its good faith judgment, whose determination shall be described in a statement filed by the Corporation with the stock transfer or conversion agent, as appropriate) of the portion of the capital stock or assets or the evidences of indebtedness or assets so distributed to the holder of one share of Common Stock or of such subscription rights or warrants applicable to one share of Common Stock, and of which the denominator shall be such Current Market Price. Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution.

(iv) For the purpose of any computation under subsections (ii) and (iii) of this Section 6(f), the "CURRENT MARKET PRICE" per share of Common Stock on any date shall be deemed to be the average of the daily Closing Prices for the shorter of (A) 10 consecutive Trading Days ending on the day immediately preceding the applicable Time of Determination (as defined below) or (B) the period commencing on the date next succeeding the first public announcement of the issuance of such rights or warrants or such distribution through such last day prior to the applicable Time of Determination. For purposes of the foregoing, the term "TIME OF DETERMINATION" shall mean the time and date of the record date for determining stockholders entitled to receive the rights, warrants or distributions referred to in Section 6(f)(ii) and (iii).

(v) In any case in which this Section 6(f) shall require that an adjustment be made to the Conversion Price, the Trigger Price shall be adjusted as follows:

	35.10
Revised Trigger Price - Revised Conversion Price X -----	
	33.75

(vi) In any case in which this Section 6(f) shall require that an adjustment be made immediately following a record date or an effective date, the Corporation may elect to defer (but only until the filing by the Corporation with the stock transfer or conversion agent, as the case may be, of the certificate required by subsection (viii)) issuing to the holder of any share of Convertible Preferred Stock converted after such record date or effective date the shares of Common Stock issuable upon such conversion over and above the shares of Common Stock issuable upon such conversion on the basis of the Conversion

Price prior to adjustment, and paying to such holder any amount of cash in lieu of a fractional share.

(vii) No adjustment in the Conversion Price shall be required to be made pursuant to this Section 6(f) unless such adjustment would require an increase or decrease of at least 1% of such price; PROVIDED, HOWEVER, that any adjustments which by reason of this subsection (f)(vii) are not

required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 6(f) shall be made to the nearest cent or to the nearest 1/1000th of a share, as the case may be. Anything in this Section 6(f) to the contrary notwithstanding, the Corporation shall be entitled to make such reduction in the Conversion Price, in addition to those required by this Section 6(f), as it in its discretion shall determine to be advisable in order that any stock dividend, subdivision of shares, distribution of rights to purchase stock or securities, or distribution of securities convertible into or exchangeable for stock hereafter made by the Corporation to its stockholders shall not be taxable to the recipients. Except as set forth in subsections (f)(i), (f)(ii), and (f)(iii) and Section 6(e) above, the Conversion Price shall not be adjusted for the issuance of Common Stock, or any securities convertible into or exchangeable for Common Stock or carrying the right to purchase any of the foregoing, in exchange for cash, property or services.

(viii) Whenever the Conversion Price is adjusted pursuant to this Section 6(f), (A) the Corporation shall promptly file with the stock transfer or conversion agent, as appropriate, a certificate setting forth the Conversion Price after such adjustment and a brief statement of the facts requiring such adjustment and the manner of computing the same, which certificate shall, absent manifest error (including the failure to make any other required adjustment under this Section 6(f)), be conclusive evidence of the correctness of such adjustment, and (B) the Corporation shall also mail or cause to be mailed by first class mail, postage prepaid, as soon as practicable to each Holder a notice stating that the Conversion Price has been adjusted and setting forth the adjusted Conversion Price. The stock transfer or conversion agent, as the case may be, shall not be under any duty or responsibility with respect to the certificate required by this subsection (viii) except to exhibit the same to any Holder who requests to inspect it.

(ix) In the event that at any time, as a result of an adjustment made pursuant to subsections (i), (ii) or (iii) of this Section 6(f), the Holder of any share of Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive any shares of the Corporation other than shares of Common Stock, thereafter the Conversion Price of such other shares so receivable upon conversion of any share of Convertible Preferred Stock shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in this Section.

(x) The Corporation from time to time in its sole discretion may decrease the Conversion Price by any amount for any period of time if the period is at least 20 days and if the decrease is irrevocable during the period.

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Whenever the Conversion Price is so decreased, the Corporation shall mail to all Holders a notice of the decrease at least 15 days before the date the decreased Conversion Price takes effect, and such notice shall state the decreased Conversion Price and the period it will be in effect.

(g) RESERVATION OF SHARES OF COMMON STOCK. The Corporation covenants that it will at all times reserve and keep available, free from preemptive rights (other than such rights as do not affect the ownership of shares issued to a Holder), out of the aggregate of its authorized but unissued shares of Common Stock or its issued shares of Common Stock held in its treasury, or both, for the purpose of effecting conversions of shares of Convertible Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Convertible Preferred Stock not theretofore converted or redeemed and on or before taking any action that would cause an adjustment of the Conversion Price resulting in an increase in the number of shares of Common Stock deliverable upon conversion above the number thereof previously reserved and available therefor, the Corporation shall take all such action so required. For purposes of this Section 6(g), the number of shares of Common Stock which shall be deliverable upon the conversion of all outstanding shares of Convertible Preferred Stock shall be computed as if at the time of computation all outstanding shares of Convertible Preferred Stock were held by a single holder.

Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value (if any) of the shares of Common Stock deliverable upon conversion of the shares of Convertible Preferred Stock, the Corporation shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and non-assessable shares of Common Stock at such adjusted Conversion Price.

(h) TRANSFER TAXES, ETC. The Corporation shall pay any and all documentary stamp, issue or transfer taxes, and any other similar taxes payable in respect of the issue or delivery of shares of Common Stock upon conversions of shares of Convertible Preferred Stock pursuant hereto; PROVIDED, HOWEVER,



that the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock in a name other than that of the holder of the shares of Convertible Preferred Stock to be converted and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

(i) CONSOLIDATION OR MERGER OR SALE OF ASSETS. For purposes of this paragraph (i), a "Sale Transaction" means any transaction or event, including any merger, consolidation, sale of assets, tender or exchange offer, reclassification, compulsory share exchange or liquidation, in which all or substantially all outstanding shares of the Corporation's Common Stock are converted into or exchanged for stock, other securities, cash or assets or following which any remaining outstanding shares of Common Stock fail to meet the listing standards imposed by each of the New York Stock Exchange, the American Stock Exchange and the Nasdaq National Market at the time of such transaction, but shall not include any transaction the primary purpose of which is the reincorporation of

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the Corporation in another U.S. jurisdiction so long as in such transaction each share of Convertible Preferred Stock shall convert into an equity security of the successor to the Corporation having identical dividends, rights and preferences as the Convertible Preferred Stock. If a Sale Transaction occurs, then each Holder shall have the right to elect one of the following: (i) such Sale Transaction shall be deemed a liquidation for purposes of Section 4, and the amount of the liquidating distribution to holders of Common Stock for purposes of calculating the liquidation preference payable under Section 4 shall be deemed to be zero, (ii) provision shall be made so that such Holder receives in exchange for each outstanding share of Convertible Preferred Stock held by such Holder the kind and amount of securities, cash or other property receivable upon such Sale Transaction by a holder of the number of shares of Common Stock into which such share of Convertible Preferred Stock might have been converted immediately prior to such Sale Transaction assuming such holder of Common Stock did not exercise his rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such Sale Transaction (provided that, if the kind or amount of securities, cash or other property receivable upon such Sale Transaction is not the same for each share of Common Stock in respect of which such rights of election shall not have been exercised ("NON-ELECTING SHARE"), then for the purposes of this Section 6(i) the kind and amount of securities, cash or other property receivable upon such Sale Transaction for each Non-Electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-Electing Shares) or (iii) to the extent permitted under applicable law, lawful provision shall be made by the corporation, if any, formed by the Sale Transaction or the corporation, if any, whose securities, cash or other property will immediately after the Sale Transaction be owned, by virtue of such Sale Transaction, by the holders of Common Stock immediately prior to such Sale Transaction, or the corporation, if any, which shall have acquired (whether directly or indirectly) in such Sale Transaction such assets or securities of the Corporation (collectively the "FORMED, SURVIVING OR ACQUIRING CORPORATION"), as the case may be, providing that the Holder of each share of Convertible Preferred Stock then outstanding shall receive in exchange for each such share of Convertible Preferred Stock an equity security of the Formed, Surviving or Acquiring Corporation having substantially equivalent dividends, rights and preferences as the Convertible Preferred Stock ("MIRROR PREFERRED STOCK"), except that the Holder thereof shall have the right thereafter to convert such Mirror Preferred Stock into the kind and amount of securities, cash or other property receivable upon such Sale Transaction by a holder of the number of shares of Common Stock into which such share of Convertible Preferred Stock might have been converted immediately prior to such Sale Transaction assuming such holder of Common Stock did not exercise his rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such Sale Transaction. Each Holder shall be provided notice of the Sale Transaction not later than twenty (20) days prior to the effective date thereof, which notice shall detail the material terms of the Sale Transaction, including without limitation the nature and amount of consideration payable to the holders of Common Stock in such Sale Transaction. In the event that a Holder elects option (iii) and such option is not permitted under applicable law, at the option of the Corporation, (A) the Formed, Surviving or Acquiring Corporation will cause a U.S. subsidiary of such Formed, Surviving or Acquiring Corporation to issue a security satisfying the terms described in option (iii) above or (B) such Sale Transaction shall be deemed a liquidation for purposes of Section 4, and the amount of the liquidating

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distribution to holders of Common Stock for purposes of calculating the liquidation preference payable under Section 4 shall be deemed to be 20% of the amount of the liquidation preference payable to a Holder of Convertible Preferred Stock pursuant to clause (a) of Section 4 hereof (i.e., initially \$50), as such amount may be adjusted from time to time pursuant to the terms of

this Certificate. The Formed, Surviving or Acquiring Corporation shall, if applicable, make provision in its certificate or articles of incorporation or other constituent documents to the end that the provisions set forth in this Section 6(i) shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares of stock or other securities or property thereafter deliverable on the conversion of the Convertible Preferred Stock.

Notwithstanding anything to the contrary herein, there will be no adjustment in connection with a Sale Transaction pursuant to Section 6(f) hereof except as provided in this Section 6(i). The above provisions of this Section 6(i) shall similarly apply to successive Sale Transactions; PROVIDED, HOWEVER, that in no event shall a Holder of a share of Convertible Preferred Stock be entitled to more than one adjustment pursuant to this Section 6(i) in respect of a series of related transactions.

SECTION 7. VOTING RIGHTS. The Holders shall not have any voting rights by virtue of their ownership of the Convertible Preferred Stock except as set forth herein or as otherwise from time to time may be required by law. In connection with any vote in which the holders of Common Stock are entitled to vote (other than pursuant to Section C(7) of Article IV of the Restated Certificate of Incorporation of the Corporation relating to the separate right of the holders of Common Stock as a class to elect 25% of the Corporation's directors), a Holder will have two votes for each share of Convertible Preferred Stock held, such votes to be cast together with the votes of the holders of the Common Stock, voting together as a single class. Any shares of Convertible Preferred Stock held by the Corporation or any entity controlled by the Corporation shall not have voting rights hereunder and shall not be counted in determining the presence of a quorum.

SECTION 8. OUTSTANDING SHARES. For purposes of this Certificate of Resolution, all shares of Convertible Preferred Stock shall be deemed outstanding except (i) from the date fixed for redemption pursuant to Section 5, all shares of Convertible Preferred Stock that have been so called for redemption under Section 5 if shares of Common Stock and funds necessary for payment of the redemption price, as the case may be, have been irrevocably set apart; (ii) from the date of surrender of certificates representing shares of Convertible Preferred Stock, all shares of Convertible Preferred Stock converted into Common Stock; and (iii) from the date of registration of transfer, all shares of Convertible Preferred Stock held of record by the Corporation or any subsidiary of the Corporation.

SECTION 9. STATUS OF ACQUIRED SHARES. Shares of Convertible Preferred Stock redeemed by the Corporation, received upon conversion pursuant to Section 6, cancelled pursuant to Section 2 or otherwise acquired by the Corporation will be restored to the status of authorized and unissued shares of preferred stock, without designation as to series, and may thereafter be issued, but not as shares of Convertible Preferred Stock.

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SECTION 10. PREEMPTIVE RIGHTS. The Convertible Preferred Stock is not entitled to any preemptive or subscription rights in respect of any securities of the Corporation.

SECTION 11. COVENANT REGARDING SHARES OF COMMON STOCK. All shares of Common Stock which may be delivered upon conversion or redemption of shares of Convertible Preferred Stock, or in connection with any dividend payment, will upon delivery be duly and validly issued and fully paid and non-assessable, free of all liens and charges and not subject to any preemptive rights (other than rights which do not affect the Holder's right to own the shares of Common Stock to be issued), and prior to the applicable Redemption Date, Dividend Date or Conversion Date, the Corporation shall take any corporate action necessary therefor. The issuance of all such shares of Common Stock shall, to the extent permitted by law, be registered under the Securities Act of 1933, as amended.

SECTION 12. SEVERABILITY OF PROVISIONS. Whenever possible, each provision hereof shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or otherwise adversely affecting the remaining provisions hereof. If a court of competent jurisdiction should determine that a provision hereof would be valid or enforceable if a period of time were extended or shortened or a particular percentage were increased or decreased, then such court may make such change as shall be necessary to render the provision in question effective and valid under applicable law.

SECTION 13. NOTICES. Any notice to Holders or USA required pursuant to this Certificate of Designations shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid, (iii) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with verification of receipt, and (iv) five (5) business days after having been sent

by first class mail, postage prepaid. All notices to Holders shall be addressed to each Holder of record at the address of such Holder appearing on the books of the Corporation.

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IN WITNESS WHEREOF, this Certificate of Designations is executed on behalf of the Corporation by Dara Khosrowshahi, its Executive Vice President, and its corporate seal to be hereunto affixed and attested by Julius Genachowski, its Secretary, this 4th day of February, 2002.

USA NETWORKS, INC.

By: /s/ Dara Khosrowshahi

-----  
Name: Dara Khosrowshahi  
Title: Executive Vice President

[SEAL]

Attest:

/s/ Julius Genachowski

-----  
Julius Genachowski  
Secretary

EQUITY WARRANT AGREEMENT

dated as of February 4, 2002

for

WARRANTS TO PURCHASE

UP TO 16,985,000 SHARES OF COMMON STOCK

EXPIRING FEBRUARY 4, 2009

between

USA NETWORKS, INC.

and

THE BANK OF NEW YORK, as

Equity Warrant Agent

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THIS EQUITY WARRANT AGREEMENT (the "AGREEMENT"), dated as of February 4, 2002, between USA Networks, Inc., a Delaware corporation (the "COMPANY"), and Bank of New York, a New York corporation, as warrant agent (the "EQUITY WARRANT AGENT").

WHEREAS, pursuant to the Amended and Restated Agreement and Plan of Recapitalization and Merger, by and among the Company, Expedia, Inc. ("EXPEDIA"), Taipei, Inc. ("TAIPEI"), Microsoft Corporation, and Microsoft E-Holdings, Inc., dated as of July 15, 2001, the Class B Common Stock of Expedia, if issued, will be converted into the right to receive certain of the Company's equity securities (the "USA EQUITY SECURITIES") in the merger of Taipei with and into Expedia;

WHEREAS, the USA Equity Securities include warrants (the "EQUITY WARRANTS" or, individually, an "EQUITY WARRANT") representing the right to purchase shares of the common stock, par value \$.01 per share, of the Company (the "COMMON STOCK"), such Equity Warrants to be evidenced by certificates herein called the "EQUITY WARRANT CERTIFICATES";

WHEREAS, the Company desires the Equity Warrant Agent to assist the Company in connection with the issuance, exchange, cancellation, replacement and exercise of the Equity Warrants, and in this Agreement wishes to set forth, among other things, the terms and conditions on which the Equity Warrants may be issued, exchanged, cancelled, replaced and exercised; and

WHEREAS, the Company has duly authorized the execution and delivery of this Agreement to provide for the issuance of Equity Warrants to be exercisable at such times and for such prices, and to have such other provisions, as shall be fixed as hereinafter provided.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE 1.

DEFINITIONS

"CLOSING PRICE" for each Trading Day shall be the last reported sales price regular way, during regular trading hours, or, in case no such reported sales takes place on such day, the average of the closing bid and asked prices regular way, during regular trading hours, for such day, in each case on The Nasdaq Stock Market or, if not listed or quoted on such market, on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if not listed or admitted to trading on a national securities exchange, the last sale price regular way for the Common Stock as published by the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), or if such last sale price is not so published by NASDAQ or if no such sale takes place on such day, the mean between the closing bid and asked prices for the Common Stock as published by NASDAQ. If the Common Stock is not publicly held or so listed or publicly traded, "Closing Price" shall mean the Fair Market Value per share as determined in good faith by the Board of Directors of the Company or, if such determination cannot be made, by a nationally recognized independent investment banking firm selected in good faith by the Board of Directors of the Company.

"COMMON STOCK" shall have the meaning set forth in the recitals hereto.

"CURRENT MARKET PRICE" shall have the meaning set forth in Section 4.1(d).

"EQUITY WARRANT REGISTER" shall have the meaning set forth in Section 6.1.

"EXERCISE DATE" shall have the meaning set forth in 3.3(a).

"EXERCISE PRICE" shall have the meaning set forth in Section 3.1.

"EXPIRATION DATE" means 5:00 p.m. New York City time on February 4, 2009.

"FAIR MARKET VALUE" means the amount that a willing buyer would pay a willing seller in an arm's length transaction.

"FORMED, SURVIVING OR ACQUIRING CORPORATION" shall have the meaning set forth in Section 5.4.

"HOLDER" means the person or persons in whose name such Equity Warrant Certificate shall then be registered as set forth in the Equity Warrant Register to be maintained by the Equity Warrant Agent pursuant to Section 6.1 for that purpose.

"NON-ELECTING SHARE" shall have the meaning set forth in Section 5.4.

"OFFICER'S CERTIFICATE" shall have the meaning set forth in Section 7.2(e).

"PROSPECTUS" shall have the meaning set forth in Section 8.9.

"SALE TRANSACTION" shall have the meaning set forth in Section 5.4.

"TIME OF DETERMINATION" shall have the meaning set forth in Section 4.1(d).

"TRADING DAY" shall mean a day on which the securities exchange utilized for the purpose of calculating the Closing Price shall be open for business or, if the shares of Common Stock shall not be listed on such exchange for such period, a day on which The Nasdaq Stock Market is open for business.

## ARTICLE 2.

### ISSUANCE OF EQUITY WARRANTS AND EXECUTION AND DELIVERY OF EQUITY WARRANT CERTIFICATES

2.1. ISSUANCE OF EQUITY WARRANTS. Equity Warrants may be issued by the Company from time to time, together with or separately from the other USA Equity Securities.

#### 2.2. FORM AND EXECUTION OF EQUITY WARRANT CERTIFICATES.

(a) The Equity Warrants shall be evidenced by the Equity Warrant Certificates, which shall be in registered form and substantially in the form set forth as Exhibit A

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attached hereto. Each Equity Warrant Certificate shall be dated the date it is countersigned by the Equity Warrant Agent and may have such letters, numbers or other marks of identification and such legends or endorsements printed, lithographed or engraved thereon as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any securities exchange on which the Equity Warrants may be listed, or to conform to usage, as the officer of the Company executing the same may approve (his execution thereof to be conclusive evidence of such approval). Each Equity Warrant Certificate shall evidence one or more Equity Warrants.

(b) The Equity Warrant Certificates shall be signed in the name and on behalf of the Company by its Chairman, its Vice Chairman, its Chief Executive Officer, President or a Vice President (any reference to a Vice President of the Company herein shall be deemed to include any Vice President of the Company whether or not designated by a number or a word or words added before or after the title "Vice President") under its corporate seal, and attested by its Secretary or an Assistant Secretary. Such signatures may be manual or facsimile signatures of the present or any future holder of any such office and may be imprinted or otherwise reproduced on the Equity Warrant Certificates. The seal of the Company may be in the form of a facsimile thereof and may be impressed, affixed, imprinted or otherwise reproduced on the Equity Warrant Certificates.

(c) No Equity Warrant Certificate shall be valid for any purpose, and no Equity Warrant evidenced thereby shall be deemed issued or exercisable, until such Equity Warrant Certificate has been countersigned by the manual or facsimile signature of the Equity Warrant Agent. Such signature by the Equity Warrant Agent upon any Equity Warrant Certificate executed by the Company shall be conclusive evidence that the Equity Warrant Certificate so

countersigned has been duly issued hereunder.

(d) In case any officer of the Company who shall have signed any Equity Warrant Certificate either manually or by facsimile signature shall cease to be such officer before the Equity Warrant Certificate so signed shall have been countersigned and delivered by the Equity Warrant Agent, such Equity Warrant Certificate nevertheless may be countersigned and delivered as though the person who signed such Equity Warrant Certificate had not ceased to be such officer of the Company; and any Equity Warrant Certificate may be signed on behalf of the Company by such person as, at the actual date of the execution of such Equity Warrant Certificate, shall be the proper officer of the Company, although at the date of the execution of this Agreement such person was not such an officer.

2.3. ISSUANCE AND DELIVERY OF EQUITY WARRANT CERTIFICATES. At any time and from time to time after the execution and delivery of this Agreement, the Company may deliver Equity Warrant Certificates executed by the Company to the Equity Warrant Agent for countersignature. Except as provided in the following sentence, the Equity Warrant Agent shall thereupon countersign and deliver such Equity Warrant Certificates to or upon the written request of the Company. Subsequent to the original issuance of an Equity Warrant Certificate evidencing Equity Warrants, the Equity Warrant Agent shall countersign a new Equity Warrant Certificate evidencing such Equity Warrants only if such Equity Warrant Certificate is issued in

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exchange or substitution for one or more previously countersigned Equity Warrant Certificates evidencing such Equity Warrants or in connection with their transfer, as hereinafter provided.

2.4. TEMPORARY EQUITY WARRANT CERTIFICATES. Pending the preparation of a definitive Equity Warrant Certificate, the Company may execute, and upon the order of the Company the Equity Warrant Agent shall countersign and deliver, temporary Equity Warrant Certificates that are printed, lithographed, typewritten, mimeographed or otherwise produced, substantially of the tenor of the definitive Equity Warrant Certificates in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officer executing such Equity Warrant Certificates may determine, as evidenced by his execution of such Equity Warrant Certificates.

If temporary Equity Warrant Certificates are issued, the Company will cause definitive Equity Warrant Certificates to be prepared without unreasonable delay. After the preparation of definitive Equity Warrant Certificates, the temporary Equity Warrant Certificates shall be exchangeable for definitive Equity Warrant Certificates upon surrender of the temporary Equity Warrant Certificates at the corporate trust office of the Equity Warrant Agent. Upon surrender for cancellation of any one or more temporary Equity Warrant Certificates, the Company shall execute and the Equity Warrant Agent shall countersign and deliver in exchange therefor definitive Equity Warrant Certificates representing the same aggregate number of Equity Warrants. Until so exchanged, the temporary Equity Warrant Certificates shall in all respects be entitled to the same benefits under this Agreement as definitive Equity Warrant Certificates.

2.5. PAYMENT OF TAXES. The Company will pay all stamp and other duties, if any, to which this Agreement or the original issuance, or exercise, of the Equity Warrants or Equity Warrant Certificates may be subject under the laws of the United States of America or any state or locality; PROVIDED, HOWEVER, that the Holder, and not the Company, shall be required to pay any stamp or other tax or other governmental charge that may be imposed in connection with any transfer involved in the issuance of the Common Stock where the Holder designates the shares to be issued in a name other than the name of the Holder; and in the event that any such transfer is involved, the Company shall not be required to issue any Common Stock (and the purchase of the shares of Common Stock issued upon the exercise of such Holder's Equity Warrant shall not be deemed to have been consummated) until such tax or other charge shall have been paid or it has been established to the Company's satisfaction that no such tax or other charge is due.

### ARTICLE 3.

#### DURATION AND EXERCISE OF EQUITY WARRANTS

3.1. EXERCISE PRICE. Each Equity Warrant shall entitle the Holder thereof to purchase one share of Common Stock for \$35.10 (the "EXERCISE PRICE"), subject to the terms herein. The number of shares of Common Stock which shall be purchasable upon the payment of the Exercise Price shall be subject to adjustment pursuant to Article 4 hereof.

3.2. DURATION OF EQUITY WARRANTS. Each Equity Warrant may be exercised at any time up to the Expiration Date. Each Equity Warrant not exercised at or before the Expiration Date

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shall become void, and all rights of the Holder of such Equity Warrant thereunder and under this Agreement shall cease.

### 3.3. EXERCISE OF EQUITY WARRANTS.

(a) The Holder of an Equity Warrant shall have the right, at its option, to exercise such Equity Warrant and purchase one share of Common Stock during the period referred to in Section 3.2, subject to adjustment pursuant to Article 4 hereof. Except as may be provided in an Equity Warrant Certificate, an Equity Warrant may be exercised by completing the form of election to purchase set forth on the reverse side of the Equity Warrant Certificate, by duly executing the same, and by delivering the same, together with payment in full of the Exercise Price, in lawful money of the United States of America, in cash or by certified or official bank check or by bank wire transfer, to the Equity Warrant Agent. Except as may be provided in an Equity Warrant Certificate, the date on which such Equity Warrant Certificate and payment are received by the Equity Warrant Agent as aforesaid shall be deemed to be the date on which the Equity Warrant is exercised and the relevant shares of Common Stock are issued (the "EXERCISE DATE").

(b) Upon the exercise of an Equity Warrant, the Company shall, as soon as practicable, issue, to or upon the order of the Holder of such Equity Warrant, the shares of Common Stock to which such Holder is entitled, registered in such name or names as may be directed by such Holder.

(c) Unless the Equity Warrant Agent and the Company agree otherwise, the Equity Warrant Agent shall deposit all funds received by it in payment of the Equity Warrant Price for Equity Warrants in the account of the Company maintained with it for such purpose and shall advise the Company by telephone by 5:00 P.M., New York City time, of each day on which a payment of the Exercise Price for Equity Warrants is received of the amount so deposited in its account. The Equity Warrant Agent shall promptly confirm such telephone advice in writing to the Company.

(d) The Equity Warrant Agent shall, from time to time, as promptly as practicable, advise the Company of (i) the number of Equity Warrants exercised as provided herein, (ii) the instructions of each Holder of such Equity Warrants with respect to delivery of the Common Stock issued upon exercise of such Equity Warrants to which such Holder is entitled upon such exercise, and (iii) such other information as the Company shall reasonably require. Such advice may be given by telephone to be confirmed in writing.

## ARTICLE 4.

### ADJUSTMENTS OF NUMBER OF SHARES

4.1. ADJUSTMENTS. The number of shares of Common Stock purchasable upon the exercise of the Equity Warrants shall be subject to adjustment as follows:

(a) In case the Company shall (A) pay a dividend or make a distribution on its Common Stock in shares of Common Stock, (B) subdivide its outstanding shares of Common Stock into a greater number of shares, (C) combine its outstanding shares of Common Stock into

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a smaller number of shares, or (D) issue by reclassification, recapitalization or reorganization of its Common Stock any shares of capital stock of the Company, then in each such case the number of shares of Common Stock issuable upon exercise of an Equity Warrant shall be equitably adjusted so that the Holder of any Equity Warrant thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock or other capital stock of the Company which such Holder would have owned or been entitled to receive immediately following such action had such Equity Warrant been exercised immediately prior to the occurrence of such event. An adjustment made pursuant to this subsection 4.1(a) shall become effective immediately after the record date, in the case of a dividend or distribution, or immediately after the effective date, in the case of a subdivision, combination or reclassification. If, as a result of an adjustment made pursuant to this subsection 4.1(a), the Holder of any Equity Warrant thereafter exercised shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other capital stock of the Company, the Board of Directors (whose determination shall be in its good faith judgment and shall be described in a statement filed by the Company with the Equity Warrant Agent) shall determine the allocation of the Exercise Price between or among shares of such classes of capital stock or shares of Common Stock and other capital stock.

(b) In case the Company shall issue options, rights or warrants to holders of its outstanding shares of Common Stock entitling them (for a period expiring within 45 days after the record date mentioned below) to subscribe for or purchase shares of Common Stock or other securities convertible or exchangeable for shares of Common Stock at a price per share of Common Stock



less than the Current Market Price (as determined pursuant to subsection (d) of this Section 4.1) (other than pursuant to any stock option, restricted stock or other incentive or benefit plan or stock ownership or purchase plan for the benefit of employees, directors or officers or any dividend reinvestment plan of the Company in effect at the time hereof or any other similar plan adopted or implemented hereafter, it being agreed that none of the adjustments set forth in this Section 4.1 shall apply to the issuance of stock, rights, warrants or other property pursuant to such benefit plans), then the number of shares of Common Stock issuable upon exercise of an Equity Warrant shall be adjusted so that it shall equal the product obtained by multiplying the number of shares of Common Stock issuable upon exercise of an Equity Warrant immediately prior to the date of issuance of such rights or warrants by a fraction of which the numerator shall be the number of shares of Common Stock outstanding on the date of issuance of such rights or warrants (immediately prior to such issuance) plus the number of additional shares of Common Stock offered for subscription or purchase and of which the denominator shall be the number of shares of Common Stock outstanding on the date of issuance of such rights or warrants (immediately prior to such issuance) plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such Current Market Price. Such adjustment shall be made successively whenever any rights or warrants are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants; PROVIDED, HOWEVER, in the event that all the shares of Common Stock offered for subscription or purchase are not delivered upon the exercise of such rights or warrants, upon the expiration of such rights or warrants the number of shares of Common Stock issuable upon exercise of an Equity Warrant shall be readjusted to the number of shares of Common Stock issuable upon exercise of an Equity Warrant which would have been in effect had the numerator and the denominator of the foregoing fraction and the resulting adjustment been made based upon the number of shares of Common Stock actually

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delivered upon the exercise of such rights or warrants rather than upon the number of shares of Common Stock offered for subscription or purchase. In determining whether any security covered by this Section 4.1(b) entitles the holders to subscribe for or purchase shares of Common Stock at less than such Current Market Price, and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received by the Company for the issuance of such options, rights, warrants or convertible or exchangeable securities, plus the aggregate amount of additional consideration (as set forth in the instruments relating thereto) to be received by the Company upon the exercise, conversion or exchange of such securities, the value of such consideration, if other than cash, to be determined by the Board of Directors in its good faith judgment (whose determination shall be described in a statement filed by the Company with the Equity Warrant Agent).

(c) In case the Company shall, by dividend or otherwise, distribute to all holders of its outstanding Common Stock, evidences of its indebtedness or assets (including securities and cash, but excluding any regular periodic cash dividend of the Company and dividends or distributions payable in stock for which adjustment is made pursuant to subsection (a) of this Section 4.1) or rights or warrants to subscribe for or purchase securities of the Company (excluding those referred to in subsection (b) of this Section 4.1), then in each such case the number of shares of Common Stock issuable upon exercise of an Equity Warrant shall be adjusted so that the same shall equal the product determined by multiplying the number of shares of Common Stock issuable upon exercise of an Equity Warrant immediately prior to the record date of such distribution by a fraction of which the numerator shall be the Current Market Price as of the Time of Determination, and of which the denominator shall be such Current Market Price less the Fair Market Value on such record date (as determined by the Board of Directors in its good faith judgment, whose determination shall be described in a statement filed by the Company with the stock transfer or conversion agent, as appropriate) of the portion of the capital stock or assets or the evidences of indebtedness or assets so distributed to the holder of one share of Common Stock or of such subscription rights or warrants applicable to one share of Common Stock. Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution.

(d) For the purpose of any computation under subsections (b) and (c) of this Section 4.1, the "CURRENT MARKET PRICE" per share of Common Stock on any date shall be deemed to be the average of the daily Closing Prices for the shorter of (A) 10 consecutive Trading Days ending on the day immediately preceding the applicable Time of Determination or (B) the period commencing on the date next succeeding the first public announcement of the issuance of such rights or warrants or such distribution through such last day prior to the applicable Time of Determination. For purposes of the foregoing, the term "TIME OF DETERMINATION" shall mean the time and date of the record date for determining stockholders entitled to receive the rights, warrants or distributions referred to in Section 4.1(b) and (c).

(e) In any case in which this Section 4.1 shall require that an adjustment in the amount of Common Stock or other property to be received by a Holder upon exercise of an Equity Warrant be made effective as of a record date

for a specified event, the Company may elect to defer until the occurrence of such event the issuance to the Holder of any Equity Warrant exercised after such record date the Common Stock or other property issuable upon such exercise over and above the shares of Common Stock issuable upon such exercise prior to such

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adjustment, PROVIDED, HOWEVER, that the Company shall deliver to such Holder a due bill or other appropriate instrument evidencing such Holder's right to receive such additional shares of Common Stock or other property, if any, upon the occurrence of the event requiring such adjustment.

(f) No adjustment in the number of shares of Common Stock issuable upon exercise of an Equity Warrant shall be required to be made pursuant to this Section 4.1 unless such adjustment would require an increase or decrease of at least 1% of such number; PROVIDED, HOWEVER, that any adjustments which by reason of this subsection (f) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 4.1(f) shall be made to the nearest cent or to the nearest 1/1000th of a share, as the case may be. Except as set forth in subsections 4.1(a), (b), and (c) above, the number of shares of Common Stock issuable upon exercise of an Equity Warrant shall not be adjusted as a result of the issuance of Common Stock, or any securities convertible into or exchangeable for Common Stock or carrying the right to purchase any of the foregoing, in exchange for cash, property or services.

4.2. STATEMENT ON WARRANTS. Irrespective of any adjustment in the amount of Common Stock issued upon exercise of an Equity Warrant, Equity Warrants theretofore or thereafter issued may continue to express the same number and kind of shares as are stated in the Equity Warrants initially issuable pursuant to this Agreement.

4.3. CASH PAYMENTS IN LIEU OF FRACTIONAL SHARES No fractional shares or scrip representing fractions of shares of Common Stock shall be issued upon exercise of the Equity Warrants. If more than one share of Equity Warrants shall be exercised at one time by the same Holder, the number of full shares of Common Stock issuable upon exercise thereof shall be computed on the basis of the aggregate number of shares of Common Stock issuable. In lieu of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the exercise of such Equity Warrants, the Company shall pay to the Holder of such Equity Warrants an amount in cash (computed to the nearest cent) equal to the Closing Price on the Exercise Date (or the next Trading Day if such date is not a Trading Day) multiplied by the fractional interest that otherwise would have been deliverable upon exercise of such Equity Warrants.

4.4. NOTICES TO WARRANTHOLDERS. (a) Upon any adjustment of the amount of Common Stock issuable upon exercise of an Equity Warrant pursuant to Section 4.1 (but not for any fractional cumulation as described in Section 4.1(f)), the Company within 30 days thereafter shall (i) cause to be filed with the Equity Warrant Agent an Officer's Certificate (as defined hereinafter) setting forth the amount of Common Stock issuable upon exercise of an Equity Warrant after such adjustment and setting forth in reasonable detail the method of calculation and the facts upon which such calculations are based, which certificate, absent manifest error and any failure to comply with Section 4.1 (other than failures that are de minimus in nature), shall be conclusive evidence of the correctness of the matters set forth therein, and (ii) cause to be given to each of the registered Holders at his address appearing on the Equity Warrant Register (as defined hereinafter) written notice of such adjustments by first-class mail, postage prepaid.

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## ARTICLE 5.

### OTHER PROVISIONS RELATING TO RIGHTS OF HOLDERS OF EQUITY WARRANTS

5.1. NO RIGHTS AS HOLDER OF COMMON STOCK CONFERRED BY EQUITY WARRANTS OR EQUITY WARRANT CERTIFICATES. No Equity Warrant or Equity Warrant Certificate shall entitle the Holder to any of the rights of a holder of Common Stock, including, without limitation, voting, dividend or liquidation rights.

5.2. LOST, STOLEN, DESTROYED OR MUTILATED EQUITY WARRANT CERTIFICATES. Upon receipt by the Company and the Equity Warrant Agent of evidence reasonably satisfactory to them of the ownership of and the loss, theft, destruction or mutilation of any Equity Warrant Certificate and of indemnity (other than in connection with any mutilated Equity Warrant certificates surrendered to the Equity Warrant Agent for cancellation) reasonably satisfactory to them, the Company shall execute, and the Equity Warrant Agent shall countersign and deliver, in exchange for or in lieu of each lost, stolen, destroyed or mutilated Equity Warrant Certificate, a new Equity Warrant Certificate evidencing a like number of Equity Warrants of the same title. Upon the issuance of a new Equity Warrant Certificate under this Section, the Company may require the payment of a sum sufficient to cover any stamp or other tax or other governmental charge that

may be imposed in connection therewith and any other expenses (including the fees and expenses of the Equity Warrant Agent) in connection therewith. Every substitute Equity Warrant Certificate executed and delivered pursuant to this Section in lieu of any lost, stolen or destroyed Equity Warrant Certificate shall represent a contractual obligation of the Company, whether or not such lost, stolen or destroyed Equity Warrant Certificate shall be at any time enforceable by anyone, and shall be entitled to the benefits of this Agreement equally and proportionately with any and all other Equity Warrant Certificates, duly executed and delivered hereunder, evidencing Equity Warrants of the same title. The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement of lost, stolen, destroyed or mutilated Equity Warrant Certificates.

5.3. HOLDERS OF EQUITY WARRANTS MAY ENFORCE RIGHTS. Notwithstanding any of the provisions of this Agreement, any Holder may, without the consent of the Equity Warrant Agent, enforce and may institute and maintain any suit, action or proceeding against the Company suitable to enforce, or otherwise in respect of his right to exercise his Equity Warrants as provided in the Equity Warrants and in this Agreement.

5.4. CONSOLIDATION OR MERGER OR SALE OF ASSETS. For purposes of this Section 5.4, a "SALE TRANSACTION" means any transaction or event, including any merger, consolidation, sale of assets, tender or exchange offer, reclassification, compulsory share exchange or liquidation, in which all or substantially all outstanding shares of the Company's Common Stock are converted into or exchanged for stock, other securities, cash or assets or following which any remaining outstanding shares of Common Stock fail to meet the listing standards imposed by each of the New York Stock Exchange, the American Stock Exchange and the Nasdaq National Market at the time of such transaction, but shall not include any transaction the primary purpose of which is the reincorporation of the Company in another U.S. jurisdiction so long as in such transaction each Equity Warrant shall convert into an equity security of the successor to the Company

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having identical rights as the Equity Warrant. If a Sale Transaction occurs, then lawful provision shall be made by the corporation formed by such Sale Transaction or the corporation whose securities, cash or other property will immediately after the Sale Transaction be owned, by virtue of such Sale Transaction, by the holders of Common Stock immediately prior to the Sale Transaction, or the corporation which shall have acquired such securities of the Company (collectively the "FORMED, SURVIVING OR ACQUIRING CORPORATION"), as the case may be, providing that each Equity Warrant then outstanding shall thereafter be exercisable for the kind and amount of securities, cash or other property receivable upon such Sale Transaction by a holder of the number of shares of Common Stock that would have been received upon exercise of such Equity Warrant immediately prior to such Sale Transaction assuming such holder of Common Stock did not exercise his rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such Sale Transaction (provided that, if the kind or amount of securities, cash or other property receivable upon such Sale Transaction is not the same for each share of Common Stock in respect of which such rights of election shall not have been exercised ("NON-ELECTING SHARE"), then for the purposes of this Section 5.4 the kind and amount of securities, cash or other property receivable upon such Sale Transaction for each Non-Electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-Electing Shares). At the option of USA, in lieu of the foregoing, USA may require that in a Sale Transaction each Holder of an Equity Warrant shall receive in exchange for each such Equity Warrant a security of the Formed, Surviving or Acquiring Corporation having substantially equivalent rights, other than as set forth in this Section 5.4, as the Equity Warrant. Notwithstanding anything to the contrary herein, there will be no adjustments pursuant to Article 4 hereof in case of the issuance of any shares of our stock in a Sale Transaction except as provided in this Section 5.4. The provisions of this Section 5.4 shall similarly apply to successive Sale Transactions; PROVIDED, HOWEVER, that in no event shall a Holder of an Equity Warrant be entitled to more than one adjustment pursuant to this Section 5.4 in respect of a series of related transactions.

#### ARTICLE 6.

##### EXCHANGE AND TRANSFER OF EQUITY WARRANTS

6.1. EQUITY WARRANT REGISTER; EXCHANGE AND TRANSFER OF EQUITY WARRANTS. The Equity Warrant Agent shall maintain, at its corporate trust office or at 385 Rifle Camp Road, Reorganization Services Department, 5th Floor, West Paterson, New Jersey 07424, a register (the "EQUITY WARRANT REGISTER") in which, upon the issuance of Equity Warrants, and, subject to such reasonable regulations as the Equity Warrant Agent may prescribe, it shall register Equity Warrant Certificates and exchanges and transfers thereof. The Equity Warrant Register shall be in written form or in any other form capable of being converted into written form within a reasonable time.

Except as provided in the following sentence, upon surrender at the corporate trust office of the Equity Warrant Agent or at 385 Rifle Camp

Road, Reorganization Services Department, 5th Floor, West Paterson, New Jersey 07424, Equity Warrant Certificates may be exchanged for one or more other Equity Warrant Certificates evidencing the same aggregate number of Equity Warrants of the same title, or may be transferred in whole or in part. A transfer shall be registered and an appropriate entry made in the Equity Warrant Register upon

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surrender of an Equity Warrant Certificate to the Equity Warrant Agent at its corporate trust office or at 385 Rifle Camp Road, Reorganization Services Department, 5th Floor, West Paterson, New Jersey 07424 for transfer, properly endorsed or accompanied by appropriate instruments of transfer and written instructions for transfer, all in form satisfactory to the Company and the Equity Warrant Agent. Whenever an Equity Warrant Certificate is surrendered for exchange or transfer, the Equity Warrant Agent shall countersign and deliver to the person or person entitled thereto one or more Equity Warrant Certificates duly executed by the Company, as so requested. The Equity Warrant Agent shall not be required to effect any exchange or transfer which will result in the issuance of an Equity Warrant Certificate evidencing a fraction of an Equity Warrant. All Equity Warrant Certificates issued upon any exchange or transfer of an Equity Warrant Certificate shall be the valid obligations of the Company, evidencing the same obligations, and entitled to the same benefits under this Agreement, as the Equity Warrant Certificate surrendered for such exchange or transfer.

No service charge shall be made for any exchange or transfer of Equity Warrants, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any such exchange or transfer, in accordance with Section 2.5 hereof.

6.2. TREATMENT OF HOLDERS OF EQUITY WARRANTS. Every Holder of an Equity Warrant, by accepting the Equity Warrant Certificate evidencing the same, consents and agrees with the Company, the Equity Warrant Agent and with every other Holder of Equity Warrants that the Company and the Equity Warrant Agent may treat the record holder of an Equity Warrant Certificate as the absolute owner of such Equity Warrant for all purposes and as the person entitled to exercise the rights represented by such Equity Warrant.

6.3. CANCELLATION OF EQUITY WARRANT CERTIFICATES. In the event that the Company shall purchase, redeem or otherwise acquire any Equity Warrants after the issuance thereof, the Equity Warrant Certificate shall thereupon be delivered to the Equity Warrant Agent and be canceled by it. The Equity Warrant Agent shall also cancel any Equity Warrant Certificate (including any mutilated Equity Warrant Certificate) delivered to it for exercise, in whole or in part, or for exchange or transfer. Equity Warrant Certificates so canceled shall be delivered by the Equity Warrant Agent to the Company from time to time, or disposed of in accordance with the instructions of the Company.

## ARTICLE 7.

### CONCERNING THE EQUITY WARRANT AGENT

7.1. EQUITY WARRANT AGENT. The Company hereby appoints The Bank of New York as Equity Warrant Agent of the Company in respect of the Equity Warrants upon the terms and subject to the conditions set forth herein; and The Bank of New York hereby accepts such appointment. The Equity Warrant Agent shall have the powers and authority granted to and conferred upon it in the Equity Warrant Certificates and hereby and such further powers and authority acceptable to it to act on behalf of the Company as the Company may hereafter grant to or confer upon it. All of the terms and provisions with respect to such powers and authority

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contained in the Equity Warrant Certificates are subject to and governed by the terms and provisions hereof.

7.2. CONDITIONS OF EQUITY WARRANT AGENT'S OBLIGATIONS. The Equity Warrant Agent accepts its obligations set forth herein upon the terms and conditions hereof, including the following, to all of which the Company agrees and to all of which the rights hereunder of the Holders shall be subject:

(a) COMPENSATION AND INDEMNIFICATION. The Company agrees to pay the Equity Warrant Agent from time to time such compensation for its services as the Company and the Equity Warrant Agent shall agree in writing and to reimburse the Equity Warrant Agent for reasonable out-of-pocket expenses (including reasonable counsel fees) incurred by the Equity Warrant Agent in connection with the services rendered hereunder by the Equity Warrant Agent. The Company also agrees to indemnify the Equity Warrant Agent for, and to hold it harmless against, any loss, liability or expenses (including the reasonable costs and expense of defending against any claim of liability) incurred without negligence or bad faith on the part of the Equity Warrant Agent arising out of or in connection with its appointment as Equity Warrant Agent hereunder.

(b) AGENT FOR THE COMPANY. In acting under this Agreement and in connection with any Equity Warrant Certificate, the Equity Warrant Agent is acting solely as agent of the Company and does not assume any obligation or relationship of agency or trust for or with any Holder.

(c) COUNSEL. The Equity Warrant Agent may consult with counsel reasonably satisfactory to it, and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with the advice of such counsel.

(d) DOCUMENTS. The Equity Warrant Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in reliance upon any notice, direction, consent, certification, affidavit, statement or other paper or document reasonably believed by it to be genuine and to have been presented or signed by the proper parties.

(e) OFFICER'S CERTIFICATE. Whenever in the performance of its duties hereunder the Equity Warrant Agent shall reasonably deem it necessary that any fact or matter be proved or established by the Company prior to taking, suffering or omitting any action hereunder, the Equity Warrant Agent may (unless other evidence in respect thereof be herein specifically prescribed), in the absence of bad faith on its part, rely upon a certificate signed by the Chairman, the Vice Chairman, the Chief Executive Officer, the President, a Vice President, the Treasurer, and Assistant Treasurer, the Secretary or an Assistant Secretary of the Company (an "OFFICER'S CERTIFICATE") delivered by the Company to the Equity Warrant Agent.

(f) ACTIONS THROUGH AGENTS. The Equity Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder

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either itself or by or through its attorneys or agents, provided, however, that reasonable care shall be exercised in the selection and continued employment of such attorneys and agents.

(g) CERTAIN TRANSACTIONS. The Equity Warrant Agent, and any officer, director or employee thereof, may become the owner of, or acquire interest in, any Equity Warrant, with the same rights that he, she or it would have if it were not the Equity Warrant Agent, and, to the extent permitted by applicable law, he, she or it may engage or be interested in any financial or other transaction with the Company and may serve on, or as depositary, trustee or agent for, any committee or body of holders of any obligations of the Company as if it were not the Equity Warrant Agent.

(h) NO LIABILITY FOR INTEREST. The Equity Warrant Agent shall not be liable for interest on any monies at any time received by it pursuant to any of the provisions of this Agreement or of the Equity Warrant Certificates, except as otherwise agreed with the Company.

(i) NO LIABILITY FOR INVALIDITY. The Equity Warrant Agent shall incur no liability with respect to the validity of this Agreement (except as to the due execution hereof by the Equity Warrant Agent) or any Equity Warrant Certificate (except as to the countersignature thereof by the Equity Warrant Agent).

(j) NO RESPONSIBILITY FOR COMPANY REPRESENTATIONS. The Equity Warrant Agent shall not be responsible for any of the recitals or representations contained herein (except as to such statements or recitals as describe the Equity Warrant Agent or action taken or to be taken by it) or in any Equity Warrant Certificate (except as to the Equity Warrant Agent's countersignature on such Equity Warrant Certificate), all of which recitals and representations are made solely by the Company.

(k) NO IMPLIED OBLIGATIONS. The Equity Warrant Agent shall be obligated to perform only such duties as are specifically set forth herein, and no other duties or obligations shall be implied. The Equity Warrant Agent shall not be under any obligation to take any action hereunder that may subject it to any expense or liability, the payment of which within a reasonable time is not, in its reasonable opinion, assured to it. The Equity Warrant Agent shall not be accountable or under any duty or responsibility for the use by the Company of any Equity Warrant Certificate countersigned by the Equity Warrant Agent and delivered by it to the Company pursuant to this Agreement or for the application by the Company of the proceeds of the issuance or exercise of Equity Warrants. The Equity Warrant Agent shall have no duty or responsibility in case of any default by the Company in the performance of its covenants or agreements contained herein or in any Equity Warrant

Certificate or in case of the receipt of any written demand from a Holder with respect to such default, including, without limiting the generality of the foregoing, any duty or responsibility to initiate or attempt to initiate any proceedings at law or otherwise or, except as provided in Section 8.2 hereof, to make any demand upon the Company.

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7.3. COMPLIANCE WITH APPLICABLE LAWS. The Equity Warrant Agent agrees to comply with all applicable federal and state laws imposing obligations on it in respect of the services rendered by it under this Agreement and in connection with the Equity Warrants, including (but not limited to) the provisions of United States federal income tax laws regarding information reporting and backup withholding. The Equity Warrant Agent expressly assumes all liability for its failure to comply with any such laws imposing obligations on it, including (but not limited to) any liability for failure to comply with any applicable provisions of United States federal income tax laws regarding information reporting and backup withholding.

7.4. RESIGNATION AND APPOINTMENT OF SUCCESSOR.

(a) The Company agrees, for the benefit of the Holders of the Equity Warrants, that there shall at all times be an Equity Warrant Agent hereunder until all the Equity Warrants are no longer exercisable.

(b) The Equity Warrant Agent may at any time resign as such agent by giving written notice to the Company of such intention on its part, specifying the date on which its desired resignation shall become effective, subject to the appointment of a successor Equity Warrant Agent and acceptance of such appointment by such successor Equity Warrant Agent, as hereinafter provided. The Equity Warrant Agent hereunder may be removed at any time by the filing with it of an instrument in writing signed by or on behalf of the Company and specifying such removal and the date when it shall become effective. Such resignation or removal shall take effect upon the appointment by the Company, as hereinafter provided, of a successor Equity Warrant Agent (which shall be a banking institution organized under the laws of the United States of America, or one of the states thereof and having an office or an agent's office in the Borough of Manhattan, the City of New York) and the acceptance of such appointment by such successor Equity Warrant Agent. In the event a successor Equity Warrant Agent has not been appointed and has not accepted its duties within 90 days of the Equity Warrant Agent's notice of resignation, the Equity Warrant Agent may apply to any court of competent jurisdiction for the designation of a successor Equity Warrant Agent.

(c) In case at any time the Equity Warrant Agent shall resign, or shall be removed, or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or make an assignment for the benefit of its creditors or consent to the appointment of a receiver or custodian of all or any substantial part of its property, or shall admit in writing its inability to pay or meet its debts as they mature, or if a receiver or custodian of it or all or any substantial part of its property shall be appointed, or if any public officer shall have taken charge or control of the Equity Warrant Agent or of its property or affairs, for the purpose of rehabilitation, conservation or liquidation, a successor Equity Warrant Agent, qualified as aforesaid, shall be appointed by the Company by an instrument in writing, filed with the successor Equity Warrant Agent. Upon the appointment as aforesaid of a successor Equity Warrant Agent and acceptance by the latter of such appointment, the Equity Warrant Agent so superseded shall cease to be the Equity Warrant Agent hereunder.

(d) Any successor Equity Warrant Agent appointed hereunder shall execute, acknowledge and deliver to its predecessor and to the Company an instrument accepting such appointment hereunder, and thereupon such successor Equity Warrant Agent, without any further

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act, deed or conveyance, shall become vested with all the authority, rights, powers, trusts, immunities, duties and obligations of such predecessor with like effect as if originally named as Equity Warrant Agent hereunder, and such predecessor, upon payment of its charges and disbursements then unpaid, shall thereupon become obligated to transfer, deliver and pay over, and such successor Equity Warrant Agent shall be entitled to receive all moneys, securities and other property on deposit with or held by such predecessor, as Equity Warrant Agent hereunder.

(e) Any corporation into which the Equity Warrant Agent hereunder may be merged or converted or any corporation with which the Equity Warrant Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Equity Warrant Agent shall be a party, or any corporation to which the Equity Warrant Agent shall sell or otherwise transfer all or substantially all of the assets and business of the Equity Warrant Agent, provided that it shall be qualified as aforesaid, shall be the successor Equity Warrant Agent under this Agreement without the execution or

filing of any paper or any further act on the part of any of the parties hereto.

## ARTICLE 8.

### MISCELLANEOUS

#### 8.1. AMENDMENT.

(a) This Agreement and the Equity Warrants may be amended by the Company and the Equity Warrant Agent, without the consent of the Holders of Equity Warrants, for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provision contained herein or therein or in any other manner which the Company may deem to be necessary or desirable and which will not materially and adversely affect the interests of the Holders of the Equity Warrants.

(b) The Company and the Equity Warrant Agent may modify or amend this Agreement and the Equity Warrant Certificates with the consent of the Holders of not fewer than a majority in number of the then outstanding unexercised Equity Warrants affected by such modification or amendment, for any purpose; PROVIDED, HOWEVER, that no such modification or amendment that shortens the period of time during which the Equity Warrants may be exercised, or increases the per share Exercise Price, or otherwise materially and adversely affects the exercise rights of the holders or reduces the percentage of holders of outstanding Equity Warrants the consent of which is required for modification or amendment of this Agreement or the Equity Warrants, may be made without the consent of each Holder affected thereby.

8.2. NOTICES AND DEMANDS TO THE COMPANY AND EQUITY WARRANT AGENT. If the Equity Warrant Agent shall receive any notice or demand addressed to the Company by any Holder pursuant to the provisions of the Equity Warrant Certificate, the Equity Warrant Agent shall promptly forward such notice or demand to the Company.

8.3. ADDRESSES FOR NOTICES. Any communications from the Company to the Equity Warrant Agent with respect to this Agreement shall be addressed to The Bank of New York, 385 Rifle Camp Road, Reorganization Services Department, 5th Floor, West Paterson, New Jersey

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07424; any communications from the Equity Warrant Agent to the Company with respect to this Agreement shall be addressed to USA Networks, Inc., 152 West 57th Street, New York, NY 10019, Attention: General Counsel; or such other addresses as shall be specified in writing by the Equity Warrant Agent or by the Company.

8.4. GOVERNING LAW. This Agreement and the Equity Warrants shall be governed by the laws of the State of New York applicable to contracts made and to be performed entirely within such state.

8.5. GOVERNMENTAL APPROVALS. The Company will from time to time use all reasonable efforts to obtain and keep effective any and all permits, consents and approvals of governmental agencies and authorities and the national securities exchange on which the Equity Warrants may be listed or authorized for trading from time to time and filings under the United States federal and state laws, which may be or become requisite in connection with the issuance, sale, trading, transfer or delivery of the Equity Warrants, and the exercise of the Equity Warrants.

8.6. RESERVATION OF SHARES OF COMMON STOCK. The Company covenants that it will at all times reserve and keep available, free from preemptive rights (other than such rights as do not affect the ownership of shares issued to a Holder), out of the aggregate of its authorized but unissued shares of Common Stock or its issued shares of Common Stock held in its treasury, or both, for the purpose of effecting exercises of Equity Warrants, the full number of shares of Common Stock deliverable upon the exercise of all outstanding Equity Warrants not theretofore exercised and on or before taking any action that would cause an adjustment resulting in an increase in the number of shares of Common Stock deliverable upon exercise above the number thereof previously reserved and available therefor, the Company shall take all such action so required. For purposes of this Section 8.6, the number of shares of Common Stock which shall be deliverable upon the exercise of all outstanding Equity Warrants shall be computed as if at the time of computation all outstanding Equity Warrants were held by a single holder. Before taking any action which would cause an adjustment reducing the price per share of Common Stock issued upon exercise of the Equity Warrants below the then par value (if any) of such shares of Common Stock, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock at such Exercise Price.

8.7. COVENANT REGARDING SHARES OF COMMON STOCK. All shares of Common Stock which may be delivered upon exercise of the Equity Warrants will upon delivery be duly and validly issued and fully paid and non-assessable, free of

all liens and charges and not subject to any preemptive rights (other than rights which do not affect the Holder's right to own the shares of Common Stock to be issued), and prior to the Exercise Date the Company shall take any corporate action necessary therefor. The issuance of all such shares of Common Stock shall, to the extent permitted by law, be registered under the Securities Act of 1933, as amended.

8.8. PERSONS HAVING RIGHTS UNDER AGREEMENT. Nothing in this Agreement expressed or implied and nothing that may be inferred from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the Company, the Equity Warrant Agent and the Holders any right, remedy or claim under or by reason of this

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Agreement or of any covenant, condition, stipulation, promise or agreement hereof; and all covenants, conditions, stipulations, promises and agreements in this Agreement contained shall be for the sole and exclusive benefit of the Company and the Equity Warrant Agent and their successors and of the Holders of Equity Warrant Certificates.

8.9. DELIVERY OF PROSPECTUS. The Company will furnish to the Equity Warrant Agent sufficient copies of a prospectus or prospectuses relating to the Common Stock deliverable upon exercise of any outstanding Equity Warrants (each a "PROSPECTUS"), and the Equity Warrant Agent agrees to deliver to the Holder of the Equity Warrant, prior to or concurrently with the delivery of the Common Stock issued upon the exercise thereof, a copy of the Prospectus relating to such Common Stock.

8.10. HEADINGS. The descriptive headings of the several Articles and Sections and the Table of Contents of this Agreement are for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

8.11. COUNTERPARTS. This Agreement may be executed by the parties hereto in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original; but all such counterparts shall together constitute but one and the same instrument.

8.12. INSPECTION OF AGREEMENT. A copy of this Agreement shall be available at all reasonable times at the principal corporate trust office of the Equity Warrant Agent, for inspection by the Holders of Equity Warrants.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, all as of the day and year first above written.

USA NETWORKS, INC.

By /s/ Julius Genachowski  
-----  
Senior Vice President  
-----

Attest: /s/ Joanne Hawkins  
-----

Name: Joanne Hawkins  
-----

Title: Assistant Secretary  
-----

THE BANK OF NEW YORK

By /s/ Ralph Chianese  
-----  
Vice President  
-----

Attest: /s/ John Sivertsin  
-----

Name: John Sivertsin  
-----

Title: Vice President  
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SPECIMEN

CUSIP

FACE

No. W \_\_\_\_

Equity Warrants

EQUITY WARRANT CERTIFICATE

USA NETWORKS, INC.

This Warrant Certificate certifies that \_\_\_\_\_

or registered assigns, is the registered Holder of Equity Warrants (the "Equity Warrants") to purchase Common Stock, par value \$0.01 per share, of USA Networks, Inc., a Delaware corporation (the "Company"). Each Equity Warrant entitles the Holder to purchase from the Company one fully paid and non-assessable share of Common Stock, par value \$0.01 per share, of the Company ("Common Stock") at any time on or before 5:00 p.m. New York City time on February 4, 2009, at the exercise price (the "Exercise Price") of \$35.10 payable in lawful money of the United States of America upon surrender of this Equity Warrant Certificate and payment of the Exercise Price at the office or agency of the Warrant Agent in the City of New York, the State of New York, upon such conditions set forth herein and in the Equity Warrant Agreement (as hereinafter defined). Payment of the Exercise Price must be made in lawful money of the United States of America, in cash or by certified check or bank draft or bank wire transfer payable to the order of the Company. The number of Shares which may be purchasable upon exercise of the Equity Warrants and the Exercise Price is each subject to adjustment upon the occurrence of certain events set forth in the Equity Warrant Agreement.

By acceptance of this Equity Warrant Certificate, each Holder agrees to be bound by the terms of the Equity Warrant Agreement.

Reference is hereby made to the further provisions of this Equity Warrant Certificate set forth on the reverse hereof and such further provisions shall for all purposes have the same effect as though fully set forth at this place. Capitalized defined terms used herein have the same meaning as in the Equity Warrant Agreement.

This Equity Warrant Certificate shall not be valid unless countersigned by the Equity Warrant Agent, as such term is used in the Equity Warrant Agreement.

IN WITNESS WHEREOF, USA Networks, Inc. has caused this Equity Warrant Certificate to be duly executed under its corporate seal.

USA NETWORKS, INC.

By: /s/

-----

Attest:

-----

Countersigned:

The Bank of New York, as Equity Warrant Agent

By -----

Authorized Signature

REVERSE

EQUITY WARRANT CERTIFICATE

USA NETWORKS, INC.

The Equity Warrants evidenced by this Equity Warrant Certificate are part of a duly authorized issue of Equity Warrants issued pursuant to a Warrant Agreement dated as of February 4, 2002 (the "Equity Warrant Agreement"), duly executed and delivered by the Company to The Bank of New York (the "Equity Warrant Agent"), which Equity Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Equity Warrant Agent, the Company and the Holders

(the words "Holders" or "Holder" meaning the registered Holders or registered Holder) of the Equity Warrants.

Equity Warrants may be exercised to purchase shares of Common Stock of the Company, par value \$.01 per share ("Common Stock") upon such terms and conditions as are set forth in the Equity Warrant Agreement at any time on or before 5:00 p.m. New York City time on February 4, 2009, at the Exercise Price set forth on the face hereof. The Holder of Equity Warrants evidenced by this Equity Warrant Certificate may exercise them by surrendering the Equity Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Exercise Price at the office of the Equity Warrant Agent in the City of New York in the State of New York. In the event that upon any exercise of Equity Warrants evidenced hereby the number of Equity Warrants exercised shall be less than the total number of Equity Warrants evidenced hereby, there shall be issued to the Holder hereof or his assignee a new Equity Warrant Certificate evidencing the number of Equity Warrants not exercised. Nothing contained in the Equity Warrant Agreement or in this Equity Warrant Certificate shall be construed as conferring upon the Holders thereof the right to vote, to receive dividends or other distributions, to exercise any preemptive right or to consent or to receive notice as shareholders in respect of meetings of shareholders for the election of Directors of the Company or any other matter, or any other rights whatsoever as shareholders of the Company.

The Equity Warrant Agreement provides that upon the occurrence of certain events, the number of shares of Common Stock issuable upon exercise of an Equity Warrant may, subject to certain conditions, be adjusted.

Equity Warrant Certificates, when surrendered at the office of the Equity Warrant Agent in the City of New York in the State of New York by the registered Holder thereof in person or by a legal representative duly authorized in writing or by registered mail, return receipt requested, may be exchanged, in the manner and subject to the limitations provided in the Equity Warrant Agreement, but without payment of any service charge, for another Equity Warrant Certificate or Equity Warrant Certificates of like tenor evidencing in the aggregate a like number of Equity Warrants and registered in the name of such registered Holder.

Upon due presentment for registration of transfer of this Equity Warrant Certificate at the office of the Equity Warrant Agent in the City of New York in the State of New York or by registered mail, return receipt requested, a new Equity Warrant Certificate or Equity Warrant Certificates of like tenor and evidencing in the aggregate a like number of Equity Warrants shall be issued to the transferee(s) in exchange for this Equity Warrant Certificate, subject to the limitations provided in the Equity Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company and the Equity Warrant Agent may deem and treat the registered Holder(s) hereof as the absolute owner(s) of this Equity Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, and of any distribution to the Holder(s) hereof, and for all other purposes, and neither the Company nor the Equity Warrant Agent shall be affected by any notice (other than a duly presented registration of transfer in accordance with the previous paragraph) to the contrary and shall not be bound to recognize any equitable or other claim to or interest in such Equity Warrant on the part of any other person.

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USA NETWORKS, INC.

ELECTION TO PURCHASE

USA NETWORKS, INC.  
152 West 57th Street  
New York, NY 10019

The undersigned hereby irrevocably elects to exercise the right of purchase represented by this Equity Warrant Certificate for \_\_\_\_\_ Equity Warrants, and to purchase thereunder the shares of Common Stock (the "Shares") provided for therein, and requests that certificates for the Shares be issued in the name of:

(Please Print Name, Address and Social Security Number)

If said number of Equity Warrants to be exercised shall not be all of the Equity Warrants evidenced by this Equity Warrant Certificate, the undersigned requests that a new Equity Warrant Certificate for the balance of the Equity Warrants be registered in the name of the undersigned or his Assignee as below indicated and delivered to the address stated below:

Dated: \_\_\_\_\_, 200\_

Name of Equity Warrant Holder or Assignee (Please Print):

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Address:

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Signature:

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(Signature must conform to name of Holder as specified on the face of the Equity Warrant Certificate)

Signature Guaranteed:

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Signature of Guarantor

ASSIGNMENT

(To be executed by the registered Holder if such Holder desires to transfer Equity Warrants.)

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

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(Print name and address of transferee)

\_\_\_\_\_ Equity Warrants, evidenced by this Equity Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney, to transfer the within Equity Warrant Certificate on the books of the Company, with full power of substitution. If said number of Equity Warrants to be transferred shall not be all of the Equity Warrants evidenced by this Equity Warrant Certificate, the assignor and assignee agree that such Attorney shall submit this Equity Warrant Certificate to the Company and request that New Equity Warrant Certificates for the applicable number of Equity Warrants be registered in the names of the undersigned as below indicated and delivered to the addresses below:

Dated:

Signature:

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(Insert Social Security or Identifying Number of Assignee)

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(Signature must conform to name of holder as specified on the face of the Equity Warrant Certificate)

Address of Assignor (if necessary):

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Address of Assignee (if necessary):

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Signature Guaranteed:

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Signature of Guarantor

SIXTH AMENDMENT dated as of December 7, 2001 (this "AMENDMENT") to the Credit Agreement dated as of February 12, 1998 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among USA NETWORKS, INC., a Delaware corporation ("USANi"), USANi LLC, a Delaware limited liability company (the "BORROWER"), the several banks and other financial institutions and entities from time to time parties thereto (the "LENDERS"), BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION and THE BANK OF NEW YORK, as co-documentation agents (in such capacity, the "CO-DOCUMENTATION AGENTS") and JPMORGAN CHASE BANK (f/k/a The Chase Manhattan Bank), as administrative agent (in such capacity, the "ADMINISTRATIVE AGENT") and as collateral agent (in such capacity, the "COLLATERAL AGENT").

WHEREAS, pursuant to the Credit Agreement, the Lenders have agreed to make certain loans to the Borrower and the Issuing Bank has agreed to issue certain Letters of Credit for the account of the Borrower; and

WHEREAS, the Borrower has requested that certain provisions of the Credit Agreement be modified or waived in the manner provided for in this Amendment, and the Lenders are willing to agree to such waivers and modifications as provided for in this Amendment.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. DEFINED TERMS. Capitalized terms used and not defined herein shall have the meanings given to them in the Credit Agreement.

2. AMENDMENTS AND WAIVERS. (a) Compliance with Sections 5.10, 5.16, 5.17, 5.18, 5.19 and 5.20 of the Credit Agreement is hereby waived to the extent required to permit the consummation of the Borrower Transaction.

(b) The following amendments are made to the definitions contained in Section 1.01 of the Credit Agreement:

(i) The definition of "CORE BUSINESS" is hereby amended by deleting such definition in its entirety and substituting in lieu thereof the following:

"CORE BUSINESS" shall mean any of the primary businesses that USANi and its Subsidiaries and, following the completion of the Expedia Acquisition, Expedia are engaged in as of September 30, 2001 and natural extensions thereof.", and

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(ii) The definition of "GUARANTOR" is hereby amended by deleting the parenthetical therein and substituting in lieu thereof the following:

"(except for the Borrower, the Foreign Subsidiaries, those subsidiaries listed on Schedule 1.01(b), the Non-Material Subsidiaries and the Publicly-Traded Subsidiaries and each of their respective Subsidiaries)".

(c) Section 1.01 of the Credit Agreement is hereby amended by inserting the following definitions in their proper alphabetical order:

(i) "BORROWER TRANSACTION" shall mean (i) the exchange or conversion (by merger, share exchange or otherwise) of all of the outstanding membership interests in the Borrower, other than the membership interests in the Borrower held by USANi, USANi Holding XI, Inc. and Home Shopping, for or into shares of USANi capital stock and (ii) the exchange or conversion (by merger, share exchange or otherwise) of all of the outstanding capital stock of Home Shopping, other than the capital stock of Home Shopping held by USANi, for or into shares of USANi capital stock.",

(ii) "EXPEDIA" shall mean Expedia, Inc., which, following the completion of the Expedia Acquisition, will be a majority-owned Subsidiary of USANi.",

(iii) "EXPEDIA ACQUISITION" shall mean the acquisition by USANi of a Controlling interest in Expedia in exchange for, among other things, newly issued shares of USANi common

- stock, up to 13,125,000 newly issued shares of Series A Stock and warrants to acquire shares of USANi common stock, in each case as described in the Expedia Agreement."
- (iv) ""EXPEDIA AGREEMENT" shall mean the Amended and Restated Agreement and Plan of Recapitalization and Merger, dated as of July 15, 2001, by and among USANi, Taipei, Expedia, and the other parties thereto, and the exhibits and other attachments thereto, with such changes thereto that are not in the aggregate materially adverse to the interests of the Lenders."
- (v) ""EXPEDIA TRANSACTIONS" shall mean the Expedia Acquisition, the NLG Payment, the Travel Channel Option, the USA Media Transaction, the MS Guarantee and such other related transactions as are described in the Expedia Agreement."
- (vi) ""HRN" shall mean Hotel Reservations Network, Inc., a majority-owned Subsidiary of USANi."

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- (vii) ""MS GUARANTEE" shall mean USANi's agreement, in connection with the completion of the Expedia Acquisition, to Guarantee Expedia's payment obligations to Microsoft Corporation under various service agreements between Microsoft and Expedia."
- (viii) ""NLG PAYMENT" shall mean the payment of \$20 million in cash that USANi may be required to make to Expedia pursuant to the Expedia Agreement following the completion of the Expedia Acquisition as a result of the termination of USANi's agreement to acquire National Leisure Group."
- (ix) ""PUBLICLY-TRADED SUBSIDIARIES" shall mean, collectively, HRN, Styleclick, TM and, following the completion of the Expedia Acquisition, Expedia."
- (x) ""SERIES A STOCK" shall mean the USANi Series A cumulative convertible preferred stock, \$50 per share face value, with a term of 20 years and that is entitled to quarterly dividend payments."
- (xi) ""STYLECLICK" shall mean Styleclick, Inc., a majority-owned Subsidiary of USANi."
- (xii) ""TAIPEI" shall mean Taipei, Inc., a Wholly Owned Subsidiary of USANi."
- (xiii) ""TM" shall mean Ticketmaster (f/k/a Ticketmaster OnlineCitySearch, Inc.), a majority-owned Subsidiary of USANi."
- (xiv) ""TRAVEL CHANNEL OPTION" shall mean the two year option granted pursuant to the Expedia Agreement for Expedia to acquire from USANi one-third of USANi's original equity and economic interest in the travel channel cable network currently under development by USANi for a purchase price equal to one-third of the aggregate cost to date of exercise incurred by USANi and its Subsidiaries in the development of the travel channel plus interest at USANi's cost of funds (such interest not to exceed the prime rate plus 1%)."
- (xv) ""USA MEDIA" shall mean USA Media, LLC, a Wholly Owned Subsidiary of USANi.", and
- (xvi) ""USA MEDIA TRANSACTION" shall mean the transfer pursuant to the Expedia Agreement by USANi to Expedia of all of the outstanding equity of USA Media, which will have as its sole asset the right to receive at no cost to USA Media advertising, marketing and promotional time valued at \$15 million per year for each of the next five years, on the various media outlets owned by USANi and

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its Subsidiaries, which right can only be used to promote the business of USA Media and its affiliates and their respective partners, business affiliates and suppliers."

(d) Section 5.01 of the Credit Agreement is hereby amended by adding the following sentence at the end of the last paragraph thereof:  
"Notwithstanding anything in this Agreement to the contrary, so long as the Borrower is a Wholly Owned Subsidiary of USANi, the obligation of the Borrower to provide the Administrative Agent, the Lenders and the Issuing Bank with the financial statements of the Borrower set forth in this Section 5.01 shall cease upon the later of (i) the consummation of the Borrower Transaction and (ii) the date on which the Borrower is no longer required to file regular SEC Reports with the Securities and Exchange Commission."

(e) Section 5.07 of the Credit Agreement is hereby amended by:

- (i) in clause (h) thereof, deleting the reference therein to "\$35,000,000" and replacing it with a reference to "\$70,000,000",
- (ii) deleting clause (m) thereof in its entirety and replacing it with the following: "Indebtedness of any Subsidiary (other than the Publicly-Traded Subsidiaries and each of their respective Subsidiaries) that is not a Guarantor to the Borrower, USANi or any Guarantor in an aggregate principal amount (together with all such other outstanding Indebtedness of such Subsidiaries and Investments outstanding under Section 5.19(h)) at any time outstanding not in excess of \$300,000,000;"
- (iii) deleting "and" at the end of clause (o) thereof, and
- (iv) deleting the period at the end of clause (p) thereof and substituting the following therefor: "; (q) the MS Guarantee; and (r) Indebtedness of the Publicly-Traded Subsidiaries and each of their respective Subsidiaries to the Borrower, USANi or any Guarantor in an aggregate principal amount (together with all such other outstanding Indebtedness of such Persons and Investments outstanding under Section 5.19(j)) at any time outstanding not in excess of \$500,000,000."

(f) Section 5.10 of the Credit Agreement is hereby amended by deleting the last sentence thereof and replacing it with the following: "Nothing in this Section 5.10 shall prohibit USANi, the Borrower or any Guarantor from complying with the provisions of the Investment Agreement, the agreements listed on Schedule 5.17 and the Expedia Agreement."

(g) Section 5.16 of the Credit Agreement is hereby amended by:

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- (i) adding the following at the beginning of clause (a): "except to consummate a transaction expressly permitted by Section 5.17 or 5.20," and
- (ii) adding the following immediately after "PROVIDED, HOWEVER, that none of the foregoing transactions shall be permitted if a Default or an Event of Default has occurred and is continuing or would result from the consummation of any such transaction": ", and PROVIDED FURTHER, HOWEVER, that, for purposes of this Section 5.16, none of the Publicly-Traded Subsidiaries or any of their respective Subsidiaries shall be considered a Material Subsidiary or a Subsidiary constituting part of a Material Subsidiary Group."

(h) Section 5.17 of the Credit Agreement is hereby amended by:

- (i) deleting "and" at the end of clause (i) thereof and replacing the period at the end of clause (j) thereof with "; and (k) the sale or other disposition of the rights of USANi and/or one or more of its Subsidiaries as required by the Expedia Agreement, including with respect to the Travel Channel Option, the USA Media Transaction and the NLG Payment.", and
- (ii) adding the following at the end of such Section: "Notwithstanding the foregoing, for purposes of this Section 5.17, none of the Publicly-Traded Subsidiaries or any of their respective Subsidiaries shall be considered a Credit Party, a Material Subsidiary or a Subsidiary constituting part of a Material Subsidiary Group."

(i) Section 5.18(a) of the Credit Agreement is hereby amended by:

- (i) in clause (i) thereof, adding the following immediately

after "except that USANi": "and the Publicly-Traded Subsidiaries",

- (ii) in clause (i) thereof, deleting the reference therein to "\$300,000,000" and replacing it with a reference to "\$500,000,000",
- (iii) in clause (i) thereof, replacing "redeem shares of its capital stock" with "redeem shares of their respective capital stock",
- (iv) in clause (i) thereof, adding the following before the ";" at the end of such clause: "; PROVIDED that none of an Investment made pursuant to Section 5.19(j), the consummation of the Travel Channel Option, the consummation of the USA Media Transaction or the conversion or redemption of the Series A Stock in

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accordance with its terms shall constitute a repurchase, redemption or acquisition for purposes of this clause (i)", and

- (v) in clause (ii) thereof, deleting "and" at the end of clause (B) thereof and replacing it with a "," and inserting the following at the end of clause (C) thereof: ", (D) USANi may declare, make and pay (whether in cash or shares of its capital stock, at USANi's option) dividends on the Series A Stock in accordance with the terms thereof, (E) USANi and any of its Subsidiaries may declare, make and pay and agree to declare make and pay dividends or other distributions consisting solely of capital stock and/or rights to acquire capital stock of the Person declaring, making or paying or agreeing to declare make or pay such dividend or other distribution, (F) any Subsidiary of any of the Publicly-Traded Subsidiaries may declare, make or pay or agree to declare make or pay dividends or other distributions to its stockholders, and (G) in addition to the matters specified in clauses (A) through (F) above, USANi and any of its Subsidiaries may declare, make and pay cash dividends on shares of its respective capital stock in an aggregate annual amount of up to \$2,000,000."

(j) Section 5.19 of the Credit Agreement is hereby amended by:

- (i) in clause (e) thereof, deleting the reference therein to "\$300,000,000" and replacing it with a reference to "\$750,000,000",
- (ii) in clause (h) thereof, deleting the reference therein to "\$200,000,000" and replacing it with a reference to "\$500,000,000", deleting the first parenthetical therein in its entirety and replacing it with the following: "(excluding the Publicly-Traded Subsidiaries and each of their respective Subsidiaries)", and inserting the following immediately prior to "not to exceed \$500,000,000": "outstanding",
- (iii) deleting "and" at the end of clause (i) thereof,
- (iv) deleting clause (j) thereof in its entirety and replacing it with the following: "(j) Investments made after the Effective Date in the Publicly-Traded Subsidiaries and any of their respective Subsidiaries in an aggregate outstanding amount not to exceed \$500,000,000; PROVIDED that any such Investment is evidenced by an intercompany note", and
- (v) inserting the following after clause (j) thereof: "; (k) the MS Guarantee; and (l) in connection with the Expedia Acquisition and immediately following the merger of Taipei with and into Expedia,

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the contributions of the Travel Channel Option and the outstanding equity of USA Media to Expedia."

(k) Section 5.20 of the Credit Agreement is hereby amended by:

- (i) in clause (a) thereof, deleting the reference therein to "\$200,000,000" and replacing it with a reference to "\$500,000,000",
- (ii) in clause (b) thereof, adding the following immediately after "solely of capital stock": ", and/or rights to acquire capital stock,", and
- (iii) deleting "and" at the end of clause (c) thereof and replacing the period at the end of clause (d) thereof with "; and (e) the Expedia Acquisition."

(l) Section 5.25 of the Credit Agreement is hereby amended by:

- (i) in clause (a) thereof, adding the following at the end of the last sentence of such Section: "; PROVIDED that, notwithstanding the foregoing, neither USANi nor the Borrower will be required to comply with this Section 5.25(a) with respect to any of the Publicly-Traded Subsidiaries or any of their respective Subsidiaries unless and until such Person becomes a Wholly Owned Subsidiary of USANi", and
- (ii) in clause (b) thereof, adding the following at the end of the last sentence of such Section: "; PROVIDED that, notwithstanding the foregoing, neither USANi nor the Borrower will be required to comply with this Section 5.25(b) with respect to any of the Publicly-Traded Subsidiaries or any of their respective Subsidiaries unless and until such Person becomes a Wholly Owned Subsidiary of USANi."

(m) Set forth on Schedule I hereto is a true and complete list of each Guarantor as of the date hereof.

3. NO OTHER AMENDMENTS; CONFIRMATION. Except as expressly amended, waived, modified or supplemented hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

4. REPRESENTATIONS AND WARRANTIES. Each of USANi and the Borrower hereby represents and warrants to the Administrative Agent, the Collateral Agent, the Issuing Bank and the Lenders as of the date hereof and as of the Amendment Effective Date (as defined below) as follows:

- (a) No Default or Event of Default has occurred and is continuing.

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(b) The execution, delivery and performance by each of USANi and the Borrower of this Amendment are within the scope of its corporate or company powers, and have been duly authorized by all necessary corporate, company and, if required, stockholder or member action on the part of each of them, and no authorizations, approvals or consents of, and no filings or registrations with, any governmental or regulatory authority or agency are necessary for the execution or delivery of this Amendment by either of them or for the validity or enforceability of this Amendment. The Credit Agreement as amended by this Amendment constitutes the legal, valid and binding obligation of each of USANi and the Borrower, enforceable against each of them in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(c) All representations and warranties of USANi and the Borrower contained in the Credit Agreement (other than representations or warranties expressly made only on and as of the Effective Date) are true and correct in all material respects on and as of the date hereof with the same force and effect as if made on and as of the date hereof.

5. EFFECTIVENESS. This Amendment shall become effective on the date (the "AMENDMENT EFFECTIVE DATE") that the following conditions precedent are satisfied in full:

(a) The Administrative Agent shall have received counterparts hereof, duly executed and delivered by USANi, the Borrower and the Required Lenders; and

(b) The Administrative Agent shall have received such opinions and certificates from USANi and the Borrower and their counsel as it may reasonably request in form reasonably satisfactory to its counsel.

6. EXPENSES. The Borrower agrees to reimburse the Administrative Agent and the Collateral Agent for its out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and



disbursements of Cravath, Swaine & Moore, counsel for the Administrative Agent.

7. GOVERNING LAW; COUNTERPARTS. (a) This Amendment and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

(b) This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment may be delivered by facsimile transmission of the relevant signature pages hereof.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

USA NETWORKS, INC.,

by

/s/ William J. Severance

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Name: William J. Severance

Title: Vice President and Controller

USANi LLC,

by

/s/ William J. Severance

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Name: William J. Severance

Title: Vice President and Controller

JPMORGAN CHASE BANK

by

/s/ Peter B. Thauer

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Name: Peter B. Thauer

Title: Vice President

ABN AMRO BANK NV

by

/s/ David Carrington

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Name: David Carrington

Title: Group Vice President

by

/s/ Bryan Matthews

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Name: Bryan Matthews

Title: Corporate Banking Officer

BNP PARIBAS

by

/s/ Ben Todres

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Name: Ben Todres

Title: Director  
Media & Telecom Finance

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by

/s/ Serge Desrayaud

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Name: Serge Desrayaud

Title: Head of Asset Management  
Media & Telecom Finance

BANK OF AMERICA, N.A.

by

/s/ Thomas J. Kane

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Name: Thomas J. Kane

Title: Principal

THE BANK OF NEW YORK COMPANY, INC.

by  
/s/ James W. Whitaker  
-----  
Name: James W. Whitaker  
Title: Authorized Signer

THE BANK OF NOVA SCOTIA

by  
/s/ Brenda S. Insull  
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Name: Brenda S. Insull  
Title: Authorized Signatory

CFP CAPITAL CORPORATION

(f/k/a Banque Worms Capital Corporation)

by  
/s/ Dominique Picon  
-----  
Name: Dominique Picon  
Title: CEO

CREDIT INDUSTRIEL ET COMMERCIAL

by  
/s/ Eric Dulot  
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Name: Eric Dulot  
Title: Vice President

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by  
/s/ Eric Longuet  
-----  
Name: Eric Longuet  
Title: Vice President

DAI-ICHI KANGYO BANK, LIMITED

by  
/s/ Yudesh Sohan  
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Name: Yudesh Sohan  
Title: Credit Officer

FIRST HAWAIIAN BANK

by  
/s/ Shannon Sansevero  
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Name: Shannon Sansevero  
Title: Media Finance Officer

FLEET NATIONAL BANK

by  
/s/ Manuel Bergueno  
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Name: Manuel Bergueno  
Title: Vice President

UNION BANK OF CALIFORNIA

by  
/s/ Jenny Dongo  
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Name: Jenny Dongo  
Title: Vice President

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WELLS FARGO BANK, NA

by  
/s/ Glen P. Cummings  
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Name: Glen P. Cummings

SCHEDULE I

Guarantors

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NAME  
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Home  
Shopping  
Network,  
Inc.  
Delaware -

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USANi Sub  
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USAi Sub,  
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HSN, LP  
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HSN Capital  
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HSN Realty  
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HSN of  
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HSN General  
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Studios USA  
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USA Cable  
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Studios USA  
Television

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Studios USA  
Pictures  
Development  
LLC  
Delaware -  
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Studios USA  
Television  
Distribution  
LLC  
Delaware -  
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## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into by and between Julius Genachowski ("Executive") and USA Networks, Inc., a Delaware corporation (the "Company"), and is effective August 9, 2000 (the "Effective Date").

WHEREAS, the Company desires to establish its right to the services of Executive, in the capacity described below, on the terms and conditions hereinafter set forth, and Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Executive and the Company have agreed and do hereby agree as follows:

1A. **EMPLOYMENT.** The Company agrees to employ Executive as Senior Vice President, General Counsel and Secretary, and Executive accepts and agrees to such employment. During Executive's employment with the Company, Executive shall do and perform all services and acts necessary or advisable to fulfill the duties and responsibilities as are commensurate and consistent with Executive's position and shall render such services on the terms set forth herein. Executive shall have supervision and day-to-day authority over the legal affairs of the Company and such other business and legal affairs as the parties may mutually agree. During Executive's employment with the Company, Executive shall report directly to the Vice Chairman (hereinafter referred to as the "Reporting Officer"). During any period in which the position of Vice Chairman is vacant, Executive shall report to the senior executive officer who has responsibility for corporate staff functions. Executive shall have such powers and duties with respect to the Company as may reasonably be assigned to Executive by the Board or Reporting Officer, to the extent consistent with Executive's position and status as set forth above. Executive agrees to devote all of his working time, attention and efforts to the Company and to perform the duties of Executive's position in accordance with the Company's policies as in effect from time to time. Executive's principal place of employment shall be the Company's offices located in New York City. Executive may work in the Washington, D.C. area every other Friday (and remain in Washington, D.C. through the weekend), following an initial transition of up to four months during which Executive may work in Washington, D.C. every Friday. Executive may also occasionally work in Washington D.C. on other weekdays, up to three days per month.

2A. **TERM OF AGREEMENT.** The term ("Term") of this Agreement shall commence on the Effective Date and shall continue until September 30, 2002, unless sooner terminated in accordance with the provisions of Section 1 of the Standard Terms and Conditions attached hereto.

3A. **COMPENSATION.**

(a) **BASE SALARY.** During the Term, the Company shall pay Executive an annual base salary of \$400,000 (the "Base Salary"), payable in equal biweekly installments or in accordance with the Company's payroll practice as in effect from time to time.

(b) **DISCRETIONARY BONUS.** During the Term, Executive shall be eligible to receive discretionary annual bonuses.

(c) **STOCK OPTIONS.** In consideration of Executive's entering into this Agreement, Executive has been granted under USA Networks, Inc.'s 1997 Stock and Annual Incentive Plan (the "Plan") a non-qualified stock option (the "Option") to purchase 200,000 shares of USA Networks, Inc. ("USAi") common stock, par value \$.01 per share (the "Common Stock"). The exercise price of the Option is \$21.875. Such Option shall vest and become exercisable in four equal installments on each of the first, second, third and fourth anniversaries of the Effective Date, provided that the Option shall become 100% vested and exercisable upon a Change in Control (as such term is defined in the Plan). The Option shall expire upon the earlier to occur of (i) ten years from the date of grant (the "Option Term") or (ii) except as otherwise provided in the Option award agreement, one year following the termination of Executive's employment with the Company for any reason other than Cause. The Option shall become vested and exercisable following a Change in Control. Upon termination by the Company other than for Cause, or by Executive for Good Reason, all of Executive's options that would vest in the 12 months following such termination shall become vested and exercisable immediately upon such termination. Notwithstanding the foregoing, expiration of the Term without renewal shall not result in the acceleration of any options that are not then vested and exercisable.

(d) **BENEFITS.** From the Effective Date through the date of termination of Executive's employment with the Company for any reason, Executive shall be entitled to participate in any welfare, health and life insurance and pension benefit and incentive programs as may be adopted from time to time by the Company on the same basis as that provided to similarly situated Executives of

the Company. Without limiting the generality of the foregoing, Executive shall be entitled to the following benefits:

(i) REIMBURSEMENT FOR BUSINESS EXPENSES. During the Term, the Company shall reimburse Executive for all reasonable and necessary expenses incurred by Executive in performing his duties for the Company, on the same basis as similarly situated Executives and in accordance with the Company's policies as in effect from time to time.

(ii) VACATION. During the Term, Executive shall be entitled to four weeks of paid vacation per year, in accordance with the plans, policies, programs and practices of the Company applicable to similarly situated Executives of the Company generally.

(iii) APARTMENT. Throughout the period of the Executive's employment with the Company during the Term, Executive shall receive up to \$50,000 annually for an apartment in New York City for Executive's use, plus the cost of a broker to obtain the initial New York Apartment (such broker cost not to exceed \$7,500 in the aggregate) but not the cost of a broker for any successor apartment(s). Such payments shall begin as of the Effective Date, and Executive shall be solely responsible for the payment for any transitional housing until a rental apartment is obtained. The Company shall pay the Executive such additional amounts as shall be necessary to make the Executive whole on a net after-tax basis for all Taxes (as defined herein) required to be paid by the Executive

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with respect to all taxable income he receives pursuant to the provisions of this Section 3A(d)(iii); provided that the aggregate amount payable by the Company under this Section 3A(d)(iii) shall not exceed \$100,000 per year (with the exception that, if Executive uses the services of a broker to obtain the New York apartment, the additional aggregate amount payable by the Company, on a one-time basis, shall not exceed \$15,000). The term "Taxes" means all federal, state and local income, employment and capital gains taxes. At the time Executive rents the New York apartment, he shall notify the Company in writing of the annual rent for such apartment (and from time to time for any successor apartment). Executive shall also certify (from time to time and at the request of the Company) that he continues to maintain a separate residence in the Washington D.C. area.

(iv) RELOCATION. Executive shall receive \$7,500 for reasonable relocation costs, including costs associated with setting up the New York apartment for residency.

4A. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by first-class mail, certified or registered with return receipt requested or hand delivery acknowledged in writing by the recipient personally, and shall be deemed to have been duly given three days after mailing or immediately upon duly acknowledged hand delivery to the respective persons named below:

If to the Company: USA Networks, Inc.  
152 West 57th Street  
New York, NY 10019  
Attention: Vice Chairman

If to Executive: Julius Genachowski  
3005 Porter Street, N.W.  
Washington, D.C. 20008

Either party may change such party's address for notices by notice duly given pursuant hereto.

5A. GOVERNING LAW; JURISDICTION. This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the internal laws of the State of New York without reference to the principles of conflicts of laws. Any and all disputes between the parties which may arise pursuant to this Agreement will be heard and determined before an appropriate federal court in New York, or, if not maintainable therein, then in an appropriate New York state court. The parties acknowledge that such courts have jurisdiction to interpret and enforce the provisions of this Agreement, and the parties consent to, and waive any and all objections that they may have as to, personal jurisdiction and/or venue in such courts.

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6A. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument. Executive expressly understands and acknowledges that the Standard Terms and Conditions attached hereto are incorporated herein by reference, deemed a part of this Agreement and are



binding and enforceable provisions of this Agreement. References to "this Agreement" or the use of the term "hereof" shall refer to this Agreement and the Standard Terms and Conditions attached hereto, taken as a whole.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and delivered by its duly authorized officer and Executive has executed and delivered this Agreement on July 19, 2000.

USA NETWORKS, INC.

/s/ Victor A. Kaufman

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By: Victor A. Kaufman  
Title: Vice Chairman

/s/ Julius Genachowski

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Julius Genachowski

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#### STANDARD TERMS AND CONDITIONS

##### 1. TERMINATION OF EXECUTIVE'S EMPLOYMENT.

(a) DEATH. In the event Executive's employment hereunder is terminated by reason of Executive's death, the Company shall pay Executive's designated beneficiary or beneficiaries, within 30 days of Executive's death in a lump sum in cash, Executive's Base Salary through the end of the month in which death occurs and any Accrued Obligations (as defined in paragraph 1(f) below).

(b) DISABILITY. If, as a result of Executive's incapacity due to physical or mental illness ("Disability"), Executive shall have been absent from the full-time performance of Executive's duties with the Company for a period of four consecutive months and, within 30 days after written notice is provided to him by the Company (in accordance with Section 6 hereof), Executive shall not have returned to the full-time performance of his duties, Executive's employment under this Agreement may be terminated by the Company for Disability. During any period prior to such termination during which Executive is absent from the full-time performance of Executive's duties with the Company due to Disability, the Company shall continue to pay Executive's Base Salary at the rate in effect at the commencement of such period of Disability, offset by any amounts payable to Executive under any disability insurance plan or policy provided by the Company. Upon termination of Executive's employment due to Disability, the Company shall pay Executive within 30 days of such termination (i) Executive's Base Salary through the end of the month in which termination occurs in a lump sum in cash, offset by any amounts payable to Executive under any disability insurance plan or policy provided by the Company; and (ii) any Accrued Obligations (as defined in paragraph 1(f) below).

(c) TERMINATION FOR CAUSE. The Company may terminate Executive's employment under this Agreement for Cause at any time prior to the expiration of the Term. As used herein, "Cause" shall mean: (i) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by Executive; PROVIDED, HOWEVER, that after indictment, the Company may suspend Executive from the rendition of services, but without limiting or modifying in any other way the Company's obligations under this Agreement; (ii) a material breach by Executive of a fiduciary duty owed to the Company; (iii) a material breach by Executive of any of the covenants made by Executive in Section 2 hereof; or (iv) the willful or gross neglect by Executive of the material duties required by this Agreement. In the event of Executive's termination for Cause, this Agreement shall terminate without further obligation by the Company, except for the payment of any Accrued Obligations (as defined in paragraph 1(f) below).

(d) TERMINATION BY THE COMPANY OTHER THAN FOR DEATH, DISABILITY OR CAUSE. If Executive's employment is terminated by the Company for any reason other than Executive's death or Disability or for Cause, or by Executive for Good Reason (as defined below), then (i) the Company shall pay Executive the Base Salary through the end of the Term over the course of the then remaining Term; and (ii) the Company shall pay Executive within 30 days of the date of such termination in a lump sum in cash any Accrued Obligations (as

defined in paragraph 1(f) below), (iii) the Company shall continue to make New York apartment payments pursuant to Section 3A(d)(iii) until the earliest time that Executive can terminate or sublease the apartment lease; (iv) certain of Executive's vested stock options shall become vested and exercisable, pursuant to Section 3A(c) of this Agreement. As used herein, "Good Reason" means that the Company, without Executive's written consent (i) reduces Executive's Base Salary or benefits, provided that Company may alter, amend or terminate any benefit plan not expressly provided for under Sections 3A so long as any such changes apply to executive officers generally; (ii) materially reduces Executive's

principal duties, responsibilities or authority as Senior Vice President and General Counsel, including noncompliance with the reporting provision in Section 1A; (iii) relocates Executive's principal place of employment outside the New York metropolitan area or does not comply with the obligations concerning Washington DC in Section 1A; or (iv) materially breaches this Agreement.

(e) MITIGATION; OFFSET. In the event of termination of Executive's employment prior to the end of the Term, Executive shall use reasonable best efforts to seek other employment and to take other reasonable actions to mitigate the amounts payable under Section 1 hereof. If Executive obtains other employment during the Term, the amount of any payment or benefit provided for under Section 1 hereof which has been paid to Executive shall be refunded to the Company by Executive in an amount equal to any compensation earned by Executive as a result of employment with or services provided to another employer after the date of Executive's termination of employment and prior to the otherwise applicable expiration of the Term, and all future amounts payable by the Company to Executive during the remainder of the Term shall be offset by the amount earned by Executive from another employer. For purposes of this Section 1(e), Executive shall have an obligation to inform the Company regarding Executive's employment status following termination and during the period encompassing the Term.

(f) ACCRUED OBLIGATIONS. As used in this Agreement, "Accrued Obligations" shall mean the sum of (i) any portion of Executive's Base Salary through the date of death or termination of employment for any reason, as the case may be, which has not yet been paid; and (ii) any compensation previously earned but deferred by Executive (together with any interest or earnings thereon) that has not yet been paid.

## 2. CONFIDENTIAL INFORMATION; NON-SOLICITATION; AND PROPRIETARY RIGHTS.

(a) CONFIDENTIALITY. Executive acknowledges that while employed by the Company Executive will occupy a position of trust and confidence. Executive shall not, except as may be required to perform Executive's duties hereunder or as required by applicable law, without limitation in time or until such information shall have become public other than by Executive's unauthorized disclosure, disclose to others or use, whether directly or indirectly, any Confidential Information regarding the Company or any of its subsidiaries or affiliates. "Confidential Information" shall mean information about the Company or any of its subsidiaries or affiliates, and their clients and customers that is not disclosed by the Company or any of its subsidiaries or affiliates for financial reporting purposes and that was learned by Executive in the course of employment by the Company or any of its subsidiaries or affiliates, including (without limitation) any proprietary knowledge, trade secrets, data, formulae, information and

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client and customer lists and all papers, resumes, and records (including computer records) of the documents containing such Confidential Information. Executive acknowledges that such Confidential Information is specialized, unique in nature and of great value to the Company and its subsidiaries or affiliates, and that such information gives the Company and its subsidiaries or affiliates a competitive advantage. Executive agrees to deliver or return to the Company, at the Company's request at any time or upon termination or expiration of Executive's employment or as soon thereafter as possible, all documents, computer tapes and disks, records, lists, data, drawings, prints, notes and written information (and all copies thereof) furnished by the Company and its subsidiaries or affiliates or prepared by Executive in the course of Executive's employment by the Company and its subsidiaries or affiliates. As used in this Agreement, "subsidiaries" and "affiliates" shall mean any company controlled by, controlling or under common control with the Company.

(b) PROPRIETARY RIGHTS; ASSIGNMENT. All Executive Developments shall be made for hire by the Executive for the Company or any of its subsidiaries or affiliates. "Executive Developments" means any idea, discovery, invention, design, method, technique, improvement, enhancement, development, computer program, machine, algorithm or other work or authorship that (i) relates to the business or operations of the Company or any of its subsidiaries or affiliates, or (ii) results from or is suggested by any undertaking assigned to the Executive or work performed by the Executive for or on behalf of the Company or any of its subsidiaries or affiliates, whether created alone or with others, during or after working hours. All Confidential Information and all Executive Developments shall remain the sole property of the Company or any of its subsidiaries or affiliates. The Executive shall acquire no proprietary interest in any Confidential Information or Executive Developments developed or acquired during the Term. To the extent the Executive may, by operation of law or otherwise, acquire any right, title or interest in or to any Confidential Information or Executive Development, the Executive hereby assigns to the Company all such proprietary rights. The Executive shall, both during and after the Term, upon the Company's request, promptly execute and deliver to the Company all such assignments, certificates and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion

deem necessary or desirable to evidence, establish, maintain, perfect, enforce or defend the Company's rights in Confidential Information and Executive Developments.

(c) COMPLIANCE WITH POLICIES AND PROCEDURES. During the Term, Executive shall adhere to the policies and standards of professionalism set forth in the Company's Policies and Procedures as they may exist from time to time.

(d) REMEDIES FOR BREACH. Executive expressly agrees and understands that the remedy at law for any breach by Executive of this Section 2 will be inadequate and that damages flowing from such breach are not usually susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon Executive's violation of any provision of this Section 2 the Company shall be entitled to obtain from any court of competent jurisdiction immediate injunctive relief and obtain a temporary order restraining any threatened or further breach as well as an equitable accounting of all profits or benefits arising out of such violation. Nothing in this Section 2 shall be deemed to limit the Company's remedies at law or in equity for

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any breach by Executive of any of the provisions of this Section 2, which may be pursued by or available to the Company.

(e) SURVIVAL OF PROVISIONS. The obligations contained in this Section 2 shall, to the extent provided in this Section 2, survive the termination or expiration of Executive's employment with the Company and, as applicable, shall be fully enforceable thereafter in accordance with the terms of this Agreement. If it is determined by a court of competent jurisdiction in any state that any restriction in this Section 2 is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

3. TERMINATION OF PRIOR AGREEMENTS. This Agreement constitutes the entire agreement between the parties and terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the Executive's employment with the Company or any of its affiliates (it being understood that this Agreement does not terminate or alter Executive's prior grants of stock options and restricted stock). Executive acknowledges and agrees that neither the Company nor anyone acting on its behalf has made, and is not making, and in executing this Agreement, the Executive has not relied upon, any representations, promises or inducements except to the extent the same is expressly set forth in this Agreement. Executive hereby represents and warrants that by entering into this Agreement, Executive will not rescind or otherwise breach an employment agreement with Executive's current employer prior to the natural expiration date of such agreement

4. ASSIGNMENT; SUCCESSORS. This Agreement is personal in its nature and none of the parties hereto shall, without the consent of the others, assign or transfer this Agreement or any rights or obligations hereunder, provided that, in the event of the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder, and all references herein to the "Company" shall refer to such successor.

5. WITHHOLDING. The Company shall make such deductions and withhold such amounts from each payment and benefit made or provided to Executive hereunder, as may be required from time to time by applicable law, governmental regulation or order.

6. HEADING REFERENCES. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. References to "this Agreement" or the use of the term "hereof" shall refer to these Standard Terms and Conditions and the Employment Agreement attached hereto, taken as a whole.

7. WAIVER; MODIFICATION. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance

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with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto. Subject to Section 1A above, neither the assignment of Executive to a different Reporting Officer due to a reorganization or an

internal restructuring of the Company or its affiliated companies nor a change in the title of the Reporting Officer shall constitute a modification or a breach of this Agreement.

8. SEVERABILITY. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any law or public policy, only the portions of this Agreement that violate such law or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

9. INDEMNIFICATION. The Company shall indemnify and hold Executive harmless for acts and omissions in Executive's capacity as an officer, director or Executive of the Company to the maximum extent permitted under applicable law; PROVIDED, HOWEVER, that neither the Company, nor any of its subsidiaries or affiliates shall indemnify Executive for any losses incurred by Executive as a result of acts described in Section 1(c) of this Agreement.

ACKNOWLEDGED AND AGREED:

Date: July 19, 2000

USA NETWORKS, INC.

/s/ Victor A. Kaufman

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By: Victor A. Kaufman  
Title: Vice Chairman

/s/ Julius Genachowski

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Julius Genachowski

SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----
AST LLC	Delaware
AST SUB INC	Delaware
Exception Management Services LP	Delaware
Home Shopping Espanol S. De.R.L.	Mexico
Home Shopping Network En Espanol LLC	Delaware
Home Shopping Network En Espanol LP	Delaware
HSE Media LLC	Delaware
HSN Capital LLC	Delaware
HSN Catalog Services, Inc	Delaware
HSN Direct LLC	Delaware
HSN Fulfillment LLC	Delaware
HSN General Partner LLC	Delaware
HSN Home Shopping Network GmbH	Germany
HSN Improvements, LLC	Delaware
HSN Interactive LLC	Delaware
HSN LP	Delaware
HSN of Nevada LLC	Delaware
HSN Realty LLC	Delaware
HSNAutomatic LLC	Delaware
Ingenious Designs LLC	Delaware
MarkeTech Services, Inc.	Delaware
Short Shopping LLC	Delaware
ECS Sports Fulfillment LLC	Delaware
Home Shopping Network, Inc	Delaware
Hotel Reservation Network, Inc.	Delaware
HTRF Holdings, Inc	Delaware
New-U Studios Holdings, Inc.	Delaware
Precision Response Corp	Florida
Silver King Investment Holdings, Inc.	Delaware
SK Holding Inc.	Delaware
SKC Investments Inc.	Delaware
Styleclick, Inc.	Delaware
Taipai, Inc	Delaware
Taiwan Travel Inc.	Delaware
Ticketmaster	Delaware
TMC Realty LLC	California
USA Broadcasting Inc.	Delaware
USA Electronic Commerce Solutions LLC	Delaware
USA Films, LLC	Delaware
USA Media Corp	Delaware
USA Media LLC	Delaware
USA Network Interactive LLC	Delaware
USA Networks Holdings, Inc.	Delaware
USA Television Group LLC	Delaware
USA Video Distribution LLC	Delaware
USAi Sub Inc.	Delaware
USANI Holding XI, Inc.	Delaware
USANI LLC	Delaware
USANI Sub LLC	Delaware
ATL Productions, Inc.	Delaware
Black Crow Productions, Inc.	Delaware
Crosby Films Inc	Wyoming
Eva Productions Inc	Wyoming
Evergreen Pictures Inc	California
Glacier Films, Inc.	Delaware
Gramercy Films LLC	Delaware
Interscope Communications, Inc.	Delaware
Interscope Films, Ltd	Delaware
Island Pictures Corporation	Delaware
Lava Films, Inc.	Delaware
McCools Inc.	Wyoming
New Millenium Pictures LLC	California
October Films Inc	Delaware
OFI Holdings Inc.	Delaware
Out There Productions Limited	Delaware
PFE Development Inc	Delaware
Polygram Filmed Entertainment Distribution, Inc.	Delaware
Polygram Filmed Entertainment, Inc.	Delaware
Shokri Pictures Inc	Wyoming
Vat Films, Inc.	California
Vat Productions, Inc.	California
Volcanic Films, Inc.	California
Yala Productions Inc.	Massachusetts
Banderole Development LLC	Delaware
Broadway Legends LLC	Delaware
Crime Network, LLC	Delaware

Exposure Studios LLC	Delaware
Flagship Development LLC	Delaware
Happy Hours Development LLC	Delaware
Lexi Productions LLC	Delaware
Music of Sci Fi Channel LLC	Delaware
Music of USA Cable Entertainment LLC	Delaware
Music of USA Network LLC	Delaware
NATV Sales Inc.	Nevada
NATV Sub Corp LLC	Delaware
NCL LLC	Delaware
Nicholas Productions LLC	Delaware
North American Television, Inc.	Nevada
North Bridge Programming Inc	Canada
NWI Cable	Nevada
NWI Direct Inc.	Nevada
NWI Network Inc.	Nevada
NWI Television	Nevada
NWI Vision Inc	Nevada
Sci Fi Channel Publishing LLC	Delaware
Sci Fi Lab Development LLC	Delaware
Sci Fi Lab LLC	Delaware
Sci Fi LLC	Delaware
Storm Front LLC	Delaware
Trio Cable, Inc.	Nevada
Trio Direct Inc.	Nevada
Trio Entertainment, Inc	Canada
Trio Network Inc.	Nevada
Trio Productions, LLC	Nevada
Trio Television Inc.	Nevada
Trio Vision Inc	Nevada
True Blue Productions LLC	Delaware
Underworld Productions LLC	Delaware
USA Cable	New York
USA Cable Entertainment Development LLC	Delaware
USA Cable Entertainment LLC	Delaware
USA Cable Entertainment Publishing LLC	Delaware
USA Network Publishing LLC	Delaware
USA Networks Partner LLC	Delaware
White Flag Development LLC	Delaware
Writers Development LLC	Delaware
Coldwater USA Cable Development LLC	Delaware
Fare Holm Productions Limited	Canada
Laurel Productions LLC	Delaware
Music of Studios USA LLC	California
New U Pictures Facilities LLC	Delaware
Studios USA Canada Productions	Delaware
Studios USA First Run Entertainment LLC	Delaware
Studios USA First Run Productions LLC	Delaware
Studios USA First-Run TV LLC	Delaware

Studios USA LLC	Delaware
Studios USA Music Publishing LLC	Delaware
Studios USA Pictures Development LLC	Delaware
Studios USA Pictures LLC	Delaware
Studios USA Programming LLC	Delaware
Studios USA Reality TV LLC	Delaware
Studios USA Talk Productions LLC	Delaware
Studios USA Talk Television LLC	Delaware
Studios USA Talk Video	Delaware
Studios USA TV Distribution LLC	Delaware
Studios USA TV LLC	Delaware
SUSA Music Publishing LLC	Delaware
The Stupids Family Productions, Inc	Delaware
Cinema Acquisition LLC	Delaware
City Search (Canada)	Canada
Cityauction, Inc	California
FC1013 Limited (UK)	United Kingdom
Match.com	Delaware
Reserve America CA Inc	Delaware
Reserve America Holdings, Inc	Canada
Reserve America ON, Inc	Canada
Reserve America US Holdings, Inc	Delaware
Reserve America, Inc	Delaware
Sidewalk.com, Inc.	Nevada
Synchro Systems Limited (UK)	United Kingdom
Ticketmaster California Gift Certificates LLC	California
Ticketmaster Canada Ltd. (Canada)	Canada
Ticketmaster Cinema Group LTD	Delaware
Ticketmaster Group, Inc	Illionois
Ticketmaster Indiana Holdings Corporation	Indiana
Ticketmaster LLC	Delaware
Ticketmaster Multimedia Holdings Inc	Delaware
Ticketmaster New Ventures Holdings, Inc.	Delaware
Ticketmaster Online City Search - Canada	Canada

Ticketmaster Online City Search - UK	United Kingdom
Ticketmaster Pacific Acquisitions, Inc.	Delaware
Ticketmaster Ticketing Co., Inc.	Delaware
Ticketmaster UK Limited (UK)	United Kingdom
Ticketmaster-Indiana LLC	Indiana
Ticketweb, Inc.	Delaware
Ticketweb, Ltd.	United Kingdom
TM Movie Tix, Inc.	Delaware
TM Number One Limited (Uk)	United Kingdom
TM Vista (fna 2B Technology)	Virginia
World Wide Ticket Systems	Washington
Access Direct Telemarkting Inc	Iowa
Avaltus, Inc	New Jersey
Hancock Information Group, Inc	Florida
PRC Netcare.Com, Inc	Delaware
Precision Relay Services, Inc.	Florida
Precision Response of Colorado, Inc.	Delaware
Precision Response of Louisiana	Delaware
Precision Response of North America	Delaware
Precision Response of PA	Delaware
Precision Response of Texas	Delaware
City Desk, Inc	Florida
Dance Show, Inc.	Florida
Generation n, Inc.	Florida
Hotties, Inc.	Florida
Kenneth's Freakquency, Inc.	Florida
Lincoln Lounge, Inc.	Florida
Lips, USA Inc.	Florida
Miami USA Broadcasting Productions, Inc.	Florida

Miami USA Broadcasting, Inc.	Florida
Neil at Night, Inc.	Florida
North Central LPTV Inc.	Delaware
Northeast LPTV, Inc	Delaware
Ocean Drive, USA, Inc.	Florida
Out Loud, Inc.	Florida
Personal Box, Inc.	Florida
Radio Daze, Inc.	Florida
South Central LPTV Inc	Delaware
Southeast LPTV, Inc.	Delaware
Telemation Inc.	Delaware
Traffic Jams, USA, Inc.	Florida
USA Broadcasting Productions, Inc.	Delaware
USA Station Group LPTV, Inc.	Delaware
USA Station Group of Ann Arbor, Inc.	Delaware
USA Station Group of Nebraska, LLC	Delaware
USA Station Group of Northern Cal. Inc.	Delaware
West LPTV, Inc.	Delaware
Getting Away Productions, Inc.	Canada
J&H Productions, Inc.	Canada
Mariette Productions Canada, Inc.	Canada
Savoy Pictures Entertainment Inc.	Delaware
Savoy Pictures Inc.	Massachusetts
Savoy Pictures Television Programming, Inc.	Delaware
Savoy Stations, Inc	Delaware
Savoy Television Holdings, Inc.	Delaware
Simple Plan Productions, Inc	Delaware
The Stupids Family Productions, Inc	Delaware
SF Broadcasting of Green Bay, Inc.	Delaware
SF Broadcasting of Honolulu, Inc.	Delaware
SF Broadcasting of Mobile, Inc.	Delaware
SF Broadcasting of New Orleans, Inc.	Delaware
SF Broadcasting of Wisconsin	Delaware
SF Green Bay License Subsidiary, Inc.	Delaware
SF Honolulu License Subsidiary, Inc.	Delaware
SF Mobile License Subsidiary, Inc.	Delaware
SF Multistations, Inc.	Delaware
SF New Orleans License Subsidiary, Inc.	Delaware

CONSENT OF ERNST & YOUNG LLP

We consent to the incorporation by reference in the following registration statements of our report dated January 29, 2002 with respect to the consolidated financial statements and financial statement schedule of USA Networks, Inc. and our reports dated January 29, 2002 with respect to the consolidated financial statements and financial statement schedule of Home Shopping Network, Inc. and Subsidiaries and USANi LLC and Subsidiaries included in the Annual Report (Form 10-K) for the year ended December 31, 2001, filed with the Securities and Exchange Commission:

COMMISSION

FILE NO. -

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- Form S-8,  
No. 333-  
03717 Form  
S-8, No.  
333-18763
- Form S-8,  
No. 333-  
34146 Form  
S-8, No.  
333-37284
- Form S-8,  
No. 333-  
37286 Form  
S-8, No.  
333-48863
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